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ADOPTION OF CODES OF ETHICS BY BUSINESS ORGANISATIONS—THE UNDERLYING REASONS AND AIMS

Master's Thesis
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1 INTRODUCTION

1.1 Background of the Study

Business ethics and corporate responsibility are terms that are, of late, on everyone's lips. Though currently a bandwagon, business ethics cannot be considered as a new thing. Since ancient times, philosophers and others have discussed the relationship between business and moral life. Yet, especially over the last 30 years, business ethics has, to an increasing extent, raised interest among various actors of society. Not only has it become an established academic discipline attracting attention among both philosophers and economists, but in recent years it has also been a popular issue for public debate. The popular press is full of stories about the latest business scandals caused by unethical behaviour, ethics experts are frequently quoted in mass media and the public is calling for "corporate responsibility" in several areas of business life.

Indeed, the demands for social responsibility and ethical behaviour by companies and their leaders today are stronger than ever before. Just as companies have woken up to environmental responsibilities, they now face even more complex demands concerning social responsibility, corporate citizenship and sustainable development. Following laws, paying taxes and salaries and producing high quality products is no longer enough; companies are required to actively influence the development of the societies in which they operate. Ethical and responsible business has truly become an inevitable norm in most of the developed world. Where part of the organisational reality, in turn, these expectations make it almost impossible for companies to ignore ethical considerations. Consequently, the adoption of codes of ethics[1] has become highly popular.

Corporate ethics and responsibility have in fact become such fads that one gets easily confused in the crossfire of different declarations, claims, rumours, scandals, guidelines, and reassurances concerning them. On one side, companies tell convincing stories about their exemplary activities and publicly commit themselves to even better behaviour. With a multiplied number of codes of ethics at hand, one is made to believe that companies are fair, honest and trustworthy and follow their ethical principles wherever in the world they operate. However, on another side there is the media who have rather convincing stories to tell as well. In these stories the same companies make cartel agreements, evade the law in developing countries, do not pay even minimum salary in some of their factories, contaminate the environment with their operations and carry out substantial denouncements with doubtful justifications. To confuse things even more, there are experts who argue that companies are not even supposed to be socially responsible, because the business of business is business, not social services. Other experts, on the other hand, insist that as companies have all the more power in the world, they have to compensate it by contributing to societies' well-being.

Thus, in the middle of all the fuss and confusion about ethical issues and the abundance of codes of ethics adopted by business organisations in recent years, some important questions remain to be clarified. Do companies really *act* more ethically and responsibly? Ethical principles are being developed and communicated to the public, but are these principles actually followed by the companies that developed them? In other words, are companies really committed to following their codes of ethics in practice, or are they only building a scene for

[1] For definitions of the key concepts refer to Appendix 1.

the public and ignoring ethical considerations behind it? Is there basis in the claim that codes of ethics are *"famous for gathering dust on shelves"* (Derry 1991:133)? Finally, are companies' convincing stories only skin-deep or does the media make extravagant claims?

To evaluate the degree of commitment to ethical and responsible behaviour, one has to look at the reasons and aims that companies have for using codes of ethics. It feels reasonable to assume that deeply internalised values, such as moral considerations, behind codes of ethics tend to lead to high commitment whereas developing codes of ethics for superficial reasons, such as for the sake of public pressure or company image, most probably leads to low commitment. Business ethics researchers have traditionally treated companies as moral actors, assuming thus moral reasons behind codes of ethics and not really questioning the implementation of the pronounced intentions. This view is, however, impugned by increasingly many people, as different kinds of revelations about company reality tend to suggest the opposite to be closer the truth.

1.2 Research Gap, Objectives and Question

There exists an abundance of business ethics literature that basically discusses codes of ethics and the reasons and aims behind them. Nevertheless, the approach seems rather one-sided. Most business ethics researchers (e.g. DeGeorge 1990, Sorell and Hendry 1994, Barry 1998, Rosenthal and Buchholz 2000) take business organisations as moral actors without much in-depth questioning and thus assume that the reasons and aims behind codes of ethics are respectively moral. The idea of the amorality of business is widely discussed (at least mentioned by many), but readily denounced as a myth. In other words, any valid arguments against the morality of business organisations and the resulting moral reasons for action seem to be more or less ignored.

Limiting the discussion in business ethics on moral reasons for action alone may have resulted to a situation where some of the reasons and aims behind codes of ethics are perhaps yet to be discovered. This can be considered a major flaw, because reasons and aims are supposedly some of the main factors needed to illuminate the fundamental issue of commitment to the codes[2]. And, after all, codes of ethics are not of much use on paper alone, they are effective only when applied.

Thus, it really seems that previous studies of business ethics suffer from some rather important limitations. One can in fact identify a clear research gap that merits research. Codes of ethics being already a major issue in contemporary organisational life, one can certainly argue that the fundamental question of whether the codes are actually put into practice or whether they are just word mongering, has not been properly addressed. And, as discussed above, to clarify the question the motives and aims behind the adoption of codes of ethics have to be uncovered.

The purpose of this study is to contribute to the understanding of business ethics and particularly to the understanding of the current trend of adopting codes of ethics. This is done by challenging some of the basic assumptions of business ethics and by shedding light on alternative ways to see business ethics and the reasons and aims for using codes of ethics. Alternative points of view could naturally be found from several disciplines, but in this study, the domain of institutional theory, and particularly its organisational branch, was chosen. Institutional theory was chosen because of its good explanation power and the resulting possibility of getting completely new and interesting points to the discussion about business ethics. Given this possibility and the fact that institutional theory has not really been introduced to the field of business ethics,

[2] See discussion in Section 2.5.1.

its presence was found particularly interesting. Another alternative view to business ethics literature used in this study is the traditional view of business. This view was chosen because it is strongly present both in the discussion about business ethics and in the discussion of institutional theorists; both of these disciplines reject or at least challenge the traditional view. Consequently, it seems useful to be taken into account as an alternative point of view.

Thus, more specifically, the objective of this study is to elucidate what kind of reasons and aims companies have for using codes of ethics and whether these reasons and aims support the propositions of business ethics literature, the propositions of the traditional view of business, and/or the propositions of institutional theory. Based on that, one will hopefully be able to better understand the phenomenon and to evaluate the degree of commitment companies have to their codes of ethics.

The research question of this study can be specified as follows:

What are the main reasons and aims that companies have for adopting codes of ethics?

To find an answer to the main question, the following sub-questions will be asked:

- Do companies specify in their codes of ethics reasons and/or aims for adopting them?
- Do the reasons and aims support the propositions of business ethics literature, the propositions of the traditional view of business, and/or the propositions of institutional theory?

1.3 Method of Research

This study puts a big emphasis on analysing the existing academic literature on business ethics and institutional theory. In other words, the research question is approached first by reviewing the ideas of traditional business ethics research and then introducing a new field of study to the discussion about business ethics, namely institutional theory. The author's belief is that this discipline might improve the understanding of the issue and possibly give a whole new viewpoint to the phenomenon and its implications. Based on these disciplines and on the traditional view of business that both of them reject, three different propositions about the reasons and aims for adopting codes of ethics are then identified.

After the theoretical propositions, empirical material is used to illuminate the research question. This material consists of the codes of ethics developed and used by Finland's ten biggest companies. The data was collected mainly from the chosen companies' Internet sites, from their annual reports, and other relevant reports. In addition to this, five interviews were conducted to get a deeper understanding of the companies' reasoning (or the lack of thereof) behind their decision to adopt a code of ethics. Finally, the empirical findings are compared with the theoretical propositions and the implications of that comparison are discussed.

The terms used in both business ethics and institutional theory are still defined rather vaguely and used inconsistently. Because of this, their use in this study needs to be explained relatively extensively. Consequently, definitions of the main concepts of this study are presented in Appendix 1. Some of them are also discussed in Chapter 2.

1.4 Limitations of the Study

This study inevitably has limitations. As the theoretical basis of the research includes only literature of business ethics and institutional theory, the propositions considered only reflect the points of view of these particular branches of study. It should be noted though, that the dominant alternative view, i.e. the institutional theory, is naturally only one of the many views existing in the field of organisation studies, and it by no means represents the absolute truth.

The empirical material of this study consists essentially of the codes of ethics of Finland's ten biggest companies. Taken into account the possible effect of culture, the results are difficult to generalise to other countries, as the institutional environment in Finland might be totally different from that of other countries. It is however assumed that being a developed country where public concern for ethical issues seems to be rather high making the adoption of codes of ethics is very popular, Finland represents a good base for searching an answer to the research question. The large size of all the case companies can be regarded as a limitation as well as the demands on big, powerful companies may be very different from those made on small firms. Consequently, the results cannot be readily generalised to small firms.

A further limitation is the nature of information found in (public) codes of ethics. Finding comprehensive and truthful statements about the reasons and aims for using a code of ethics may be difficult. Since the subject is a rather delicate one, companies may be inclined to give a slightly polished image of themselves[3]. Also the interviewees may tend to give politically correct answers, either intentionally or unintentionally. Because of these tendencies, the found reasons may not tell the whole truth. As such, this study is not an attempt to provide the final answer of the

[3] See more detailed discussion in Section 3.4.

reasons and aims behind the use of codes of ethics. Rather, it is an attempt to bring forward a neglected but potentially fruitful field of study to the discussion about business ethics in the belief that it might be able to give further insight into the much discussed but hardly critically analysed topic.

1.5 Thesis Structure

The rest of this thesis is structured as follows: Chapter 2 discusses the two fields of study on which this thesis is based, namely business ethics and institutional theory. After discussing the two disciplines separately, they are put together, that is, business ethics is discussed as an institution. As a result, two different views on the reasons and aims for adopting a code of ethics are identified. In addition to these two theoretical propositions, the "traditional view of business" is taken into account in the theoretical framework. Finally, after presenting the theoretical framework, some previous empirical studies related to it are reviewed. In Chapter 3, the research methodology is discussed. After that, the empirical findings are presented in Chapter 4, and in Chapter 5, the relation between the empirical findings and the theoretical propositions is analysed and the results are discussed. Finally, the main conclusions will be summarised in Chapter 6.

2 THEORETICAL BACKGROUND

The theoretical base of this study consists of two domains: business ethics and institutional theory. This chapter is intended to shed light on both of these disciplines by defining their key concepts and discussing their role and implications in organisational life. The chapter begins with business ethics and continues with institutional theory. After discussing these two domains separately, they are put together, that is, business ethics is discussed as an institution. Finally, the research question is approached through the lenses of these disciplines and additionally through the lens of the view of business that both of them reject. To answer the question, three different theoretical propositions will be formulated. The propositions serve as the theoretical framework for the empirical study that follows.

2.1 Business Ethics

This section begins by describing the different views existing on the relationship between ethics and business. After that, the main characteristics of business ethics are discussed. The section continues by bringing out the main subject of this study—codes of ethics. Also the ideas of stakeholder theory are briefly reviewed. Following this, the morality of actions is approached through different ethical theories and finally, some critical views on business ethics and the diverse responsibilities imposed on companies are presented.

2.1.1 Ethics and Business Organisations

Ethical issues in business have existed as long as business itself (e.g. Freeman 1991, Donaldson 1992). However, there exists today a growing "business ethics movement" which started from the US and has spread from there to other parts of the world, becoming popular also in Europe. In the US this movement of business ethics, both as an academic discipline and in business practice, dates back about four decades. In Europe it began to gain popularity in the 1970s and in Japan in the 1980s. (Epstein 2002) Despite the impressive developments over the past few decades, however, business ethics is far from being an established academic discipline, particularly in Europe but also in the US (Enderle 1996).

Ethical issues in business conduct have already become *"one of the most challenging issues confronting the corporate community in this era"* (Epstein 2002:11). There are currently a significant number of business ethics courses taught at universities (although rarely compulsory ones), there are a small number of international professional journals dedicated to the topic and, in addition to these, there are regularly articles concerning business ethics in other academic journals. Business ethics has also become part of the accepted vocabulary both in the academic world and in the popular press, and the topic seems to be a popular one among people in- and outside the business world. Moreover, developing codes of ethics seems to be increasingly popular among companies.

Indeed, it seems to be increasingly expected that companies act morally, at least in certain instances and within certain limits. According to Hosmer (1996:iii), the role of ethics in business is increasingly important as *"our society becomes more crowded, our economy more competitive, and our technology more complex"*. Based on this view, the importance of business ethics would only increase in the future, as the trends mentioned are hardly weakening. Business ethics researchers in general argue that the significant role given to business ethics is justified, as business and morality are related in a number of significant ways. One of the often-stated relationships is that business is an important part of contemporary society. It involves all of us, in one way or another. In other words, business is not something separate from society, or imposed upon it—it is an integral part of society and its activities. Societies, in turn, are structured around moral rules in a fundamental way. Consequently, for businesses to be able to operate in a social structure, which is as much ethical as it is legal, political, economic, or anything else, moral issues cannot be ignored or dismissed as irrelevant. As business activity is human activity, it can well be evaluated from the moral point of view, just as any other human activity can be so evaluated. Additionally, according to DeGeorge (1990), the relationship between business and morality goes even deeper than this: Business, like most other social activities, presupposes a background of morality, and would be impossible without it. Using his words, *"morality is the oil as well as the glue of society, and, therefore, of business"* (ibid: 9).

Though the growing group of business ethics researchers trumpet about the importance of ethical considerations in business, not all people think that ethical standards should be applied to the behaviour of business organisations. A famous cliché maintains that "the business of business is business". In other words, the business of business is not government, charity, or social welfare—nor is it morality. (e.g. DeGeorge 1990, Sorell and Hendry 1994) Essentially, there seem to be three arguments behind this way of thinking (Velasquez 1992:23-25). First, it is said that the pure pursuit of profit will by itself ensure that the members of society are served in the most socially beneficial way, because it means producing efficiently what the members of society value. This argument is very consistent with Adam Smith's classic idea of the invisible hand in a free market system. Second, it is considered that a manager is only an agent of the owners of a company and it is his duty to serve his or her employer in whatever ways will advance the employer's interests. Third, it is said that for business people to be ethical it is enough to merely obey the law.

The above statements supporting the idea of the amorality of business can, however, be challenged by counter-arguments, based on the general views of business ethics researchers. First, the view apparent in business ethics writings seems to hold that even if companies serve the society by producing goods and services, they also have to do so with morally good practices, e.g. without harming the environment. Second, the manager does have to serve his/her employer, but he/she also has to take into account the other stakeholders of the company and serve their interests as well. In other words, advancing the employer's interests has to be done as far as it implies morally good actions. Third, obeying the law is not enough, because all immoral actions cannot be made illegal. All things considered, it seems to be clear that the debate about the morality of business is not over.

2.1.2 What Is Business Ethics?

There is still a good deal of ambiguity concerning just what business ethics is. Lewis (1985, quoted in Smith and Johnson 1996b) has noted that there are over 300 different definitions of business ethics available in the literature, which implies that there is currently little consensus regarding what constitutes "business ethics". According to the Oxford Dictionary of Economics, business ethics can be defined as *"the study of what standards businesses should observe in their dealings over and above the compliance with the letter of law"*. Thus, this definition starts from the assumption that merely obeying the law is not enough in order to behave ethically. The Oxford Dictionary of Economics also specifies that *"if a good reputation helps to gain and retain business, ethical conduct need not necessarily conflict with profit, but there are bound to be cases where it does"*. In other words, the definition implies that there is an inherent tension between business and ethics, and that behaving ethically may require giving up some business interests.

It is generally stated (e.g. Velasquez 1992, Chryssides and Kaler 1993) that business ethics is applied ethics. *"It is the application of our understanding of what is good and right to that assortment of institutions, technologies, transactions, activities, and pursuits which we call 'business'"* (Velasquez 1992:1). In other words, it is a specialised study of moral right and wrong. It concentrates on how moral standards apply particularly to business policies, institutions and behaviour.

Chryssides and Kaler (1993) point out that the conventional definition of business ethics as a set of principles prescribing a behaviour code that explains what is good and right or bad and wrong is far too static to be useful in today's dynamic environment. According to them, this conventional definition presumes a consensus about ethical principles that does not exist in this pluralistic age with multiple clients, shifting values, and erosion of a unifying social ethic (puritan/protestant ethic). Consequently, they argue, a more dynamic definition of business ethics is needed.

A dynamic definition of business ethics required by Chryssides and Kaler (1993) is provided by Powers and Vogel (1980, quoted in Chryssides and Kaler 1993). They state that, in essence, ethics is concerned with clarifying what constitutes human welfare and the kind of conduct necessary to promote it. This again leads to two kinds of debate: a debate on values ("what constitutes human welfare?") and a debate on behaviour ("what kind of conduct is necessary to promote human welfare?"). These values and consequently behaviour changes in response to new political and economic forces, which implies that deciding what is good and right or bad and wrong in a dynamic environment is necessarily situational and that business ethics is about an ethical process rather than about a set of fixed ethical principles. This dynamic definition of business ethics naturally leads to the question of ethical relativism discussed later, as values and the behaviour resulting from them are by no means the same everywhere.

Different Approaches to Business Ethics

As the way researchers define the concept of business ethics depends greatly on their underlying assumptions about the subject, acknowledging these assumptions can be considered extremely important. There seems to be three main approaches to business ethics: (1) the prescriptive approach, (2) the descriptive or relativist approach and (3) as a combination of these two, the approach of moral pluralism. (Smith and Johnson 1996a)

Prescriptive Approach

The prescriptive approach is based on the idea that in business ethics, universally applicable standards are possible. In other words, there exist eternal moral principles that are cognitively accessible to everyone in the conduct of business regardless of social and historical context and it is possible to objectively judge the behaviour of others in the light of their conformity to, or deviance from, these standards. This is why the approach is also often called *normative ethics*. (Smith and Johnson 1996a) The main schools of thought related to the prescriptive approach are the teleological and the deontological approaches, which are very well presented in most of the books related to business ethics. They will be discussed in more detail in Section 2.1.5. Briefly put, however, the first tradition is about judging actions based on their consequences whereas the latter is about judging actions based on certain characteristics and independently of the final consequences.

Descriptive/Relativistic Approach

The descriptive/relativistic approach to the study of business ethics seems to be increasingly discussed, as in today's global business world people have noted that one can no longer presume a common, universal, prevailing consensus for personal and corporate ethics (Smith and Johnson 1996a). The approach is based on the idea that the ways in which people reason about ethical issues, and thereby subjectively construct ethical principles that are applicable to human behaviour, varies between and within different societies both contemporaneously and historically (see e.g. Benn 1998). This is because ethical systems are social constructions bound by cultural traditions and are, therefore, always relative to a tradition from which human actors can never escape (Sumner 1988, quoted in Smith and Johnson 1996a). Thus, according to the view, there is no ultimate, universal, or absolute set of ethical principles that can be discerned and applied to evaluate or prescribe the ethical behaviour of others. One can only *describe* different ethical principles, not normatively judge them.

Even though it seems, at least when relying on the definitions of business ethics provided by different researchers, that most academics have a prescriptive approach to business ethics, many of them do acknowledge the existence of ethical relativism. However, the descriptive/relativistic approach is usually criticised. For example, DeGeorge (1990) points out that the "popular form" of moral and ethical relativism states that morality is purely personal and no one should force his/her moral views on others, and that each country and culture has its own view of what is moral and immoral and no one country or culture is better than the other. Moreover, he (ibid.) argues, according to this way of thinking, it is arrogant to think that the morality of one's own country is better than that of another country, or to think that the morality of one's own country is binding when doing business in another country. However, according to DeGeorge (ibid.), this popular form of ethical relativism has its problems, because morality cannot be considered simply as a matter of individual choice. It would imply that whatever anyone considers to be moral is thereby moral, which also according to Rosenthal and Buchholz (2000) results in irresponsible tolerance. DeGeorge (ibid.) argues additionally that ethical relativism implying that moral judgements are not right or wrong but simply statements of opinion or of feeling leads to a bizarre situation where moral means "approved by this society" and consequently one can only report one's own society's view, not a statement about an action as such. As Sorell and Hendry (1994) put it, *"to accept the relativist position is in some sense to deny any objective grounds for morality at all, and so to reject the very concept of morality as commonly understood"*.

Moral Pluralism

As an alternative to ethical relativism (and also to moral absolutism), DeGeorge (1990) presents the approach called moral pluralism. This approach is a sort of compromise between the prescriptive and the descriptive/relativistic approaches suggesting that there are some basic eternal moral values and principles that are always and everywhere applicable, forming a basic framework within we all can work, even if morality is pluralistic in nature. This view is supported by numerous researchers. Steward and Donleavy (1995) point out that even if there are differences in ethical issues across cultures, there is also solid evidence on the existence of basic beliefs held in common by most, if not nearly all, communities. Consequently, business people from all cultures share a wide measure of agreement about the concepts of right and wrong; truth and falsehood; honesty and cheating, etc. Also Sorell and Hendry (1994) argue that despite their visible differences, different cultures also have a lot in common. They say that as cultures are the products of very similar social and biological processes, it would be very surprising if these did not lead to similar moral systems and to enough common moral vocabulary to make moral debate between societies meaningful. And, like Rachels (1992) points out, there are some moral rules that all societies share, because certain rules are necessary for society to exist.

The approach of moral pluralism is very close to the pragmatic view of Rosenthal and Buchholz (2000), which also aims at finding a solution between the "irresponsible tolerance" of moral relativism (i.e. descriptive approach) and "dogmatic imposition" of moral absolutism (i.e. prescriptive approach). The pragmatic view attempts to combine the commonness of humans with the uniqueness of each human being. Also Hosmer (1996) notes that the question today is not whether different moral standards and ethical beliefs exist, because they obviously do, but rather the question is whether there is commonality overriding the differences. According to the researcher, there is one principle that does seem to exist across all groups, cultures, and times and that forms part of every ethical system. That is the belief that members of a group do bear some form of responsibility for the well-being of other members of that group.

Finally, one might say that all the researchers supporting the approach of moral pluralism seem to agree that it is irresponsible for businesses to act on the basis of "anything goes", as ethical relativism suggests. However, there is an element of cultural relativism in many areas of business practice and for a business to assume that its own ethical standards are necessarily the only best ones is also irresponsible.

Approaches to the Idea of Business Ethics

As discussed above, there are many ways to see the essence of business ethics and the applicability of ethical standards across cultures. In addition, one has to acknowledge that there are differences in the way people in different cultures deal with business ethics on a larger scale as well. A rough distinction can be made at least between some Eastern and Western cultures, the first representing Confucian culture base and the latter Christian tradition. According to Jang and Chung

(1997), morality in Western-style management is based on an individualistic and contractual relationship often labelled rationality, whereas Confucian values do not stem from rational behaviour but from a deep-rooted sense of tradition, from morality beyond rationality. One would thus expect that in the Eastern cultures business ethics as a research field or as a "management tool" would not be as popular as in the Western world.

2.1.3 The Benefits and the Problems of Business Ethics

According to Smith and Johnson (1996a), the key contribution that business ethics, as an area of study and discourse, has to make to the activity of business is that it serves to focus attention on the things that really matter: the relationship between business and the society, the production of goods and services for customer and client, the quality of working life experienced by employees regardless of rank and status, and the importance of the individual as a social agent.

DeGeorge (1990), on the other hand, argues that the value of business ethics is mostly that it can help people approach moral problems in business more systematically, and with better tools than they might otherwise use. It can help them to see issues they might normally ignore. It can also encourage them to make changes they might not otherwise make. However, he (ibid.) stresses that business ethics will not, in and of itself, make anyone moral, just like the existence of law will not make criminality disappear. In other words, business ethics will not change business practices unless those engaged in the practices wish to change moral. And obviously, only those in a position to implement the changes will be able to bring them about.

Many researchers (e.g. Chryssides and Kaler 1993) argue that taking business ethics into account is in the self-interests of a company as "good ethics is good business". For example, being a responsible company enhances employee satisfaction and loyalty, attracts customers and helps to avoid image risks. However, this may be regarded as an instrumental view of business ethics because it implies that business ethics is important only as an instrument of business efficiency, like any other management tool. Moreover, it is increasingly recognised that good ethics is not always good business.

In effect, quite a few researchers even see an inherent conflict between the economic performance of the firm and the social performance of the firm (e.g. Hosmer 1996, Smith and Johnson 1996a). This conflict is mainly due to the fact that many "ethical practices" do create immediate costs for companies. For example, investing in cleaner production technology takes money, failing to discharge an unnecessary employee means more costs than necessary, and refusing to bribe when expected may result in lost business opportunities and lost profits. Smith and Johnson (1996a) argue that this tension between business behaviour and ethical considerations needs to be acknowledged and recognised, but not necessarily in the form that ethics and business are inherently incompatible with each other. Rather, a balance should be found (Hosmer 1996). According to some business ethics researchers (e.g. Hosmer 1996, Smith and Johnson 1996a), in the increasingly competitive business world it is not always possible to decide in favour of social performance at the cost of business interests, but on the other hand, neither is it possible to concentrate solely on economic performance and ignore social concerns altogether.

Nevertheless, according to Frank (2002), the above-discussed problem might not be as severe as it would seem. He (ibid.) argues that even if firms that cooperate, i.e. act morally right, in opportunities for cheating and other opportunistic behaviour and thus receive a lower payoff than do firms that defect, socially responsible firms compensate for this disadvantage in other areas. For example, they are better at solving commitment problems with employees, customers and other firms and match with the moral values of socially responsible consumers and recruits. These strengths lead to real business advantages and payoffs, and thus compensate for the higher costs of socially responsible behaviour. According to this view, there would not be any contradiction between the social and the economic performance of a firm, at least not when it comes to one-shot dilemmas covered by Frank's (ibid.) research.

Also the research of Aupperle et al. (1985) found no relationship between corporate social responsibility (CSR) and profitability. He, like any of the earlier methodologically sound studies, could not find any correlation between the social orientation and the performance differences of companies.

2.1.4 Codes of Ethics

A code of ethics may be considered as the manifestation of a company's ethical measures, or at least of a company's intentions or commitment to act ethically. Even though codes of ethics are nowadays widely used and discussed, there is not an existing commonly agreed upon definition of what precisely constitutes a code—in fact, there seem to be two main types of conceptions of codes of ethics. According to the first, a code of ethics is understood strictly as a list of rules or recommendations. The second view, on the other hand, defines codes of ethics more broadly, so that a code refers not only to simple lists of rules but to nearly any company statement concerning issues of ethical behaviour, environmental responsibility or social responsibility. It is this broad view of codes of ethics that seems to be prevalent in academic texts and, consequently, it is the one used in this study as well. Resulting from this, the terms "code of conduct", "operating principles", "company objectives", "social responsibility programme", "public policy", etc. that are so often used in practice are considered to equate to the term "code of ethics". For clarity and for its frequent use specifically in the academic literature, however, the term code of ethics is the one used in this study.

The view of codes of ethics used in this study could thus be crystallised as follows:

> *" A code of ethics is a statement setting down corporate principles, ethics, rules of conduct, codes of practice or company philosophy concerning responsibility to employees, shareholders, consumers, the environment or any other aspects of society external to the company "* (Langlois and Schlegelmilch 1990:522).

The definition of Johnson et al. (1996:164) completes the above definition by indicating the roles a code is often assumed to take:

> *"A corporate code provides a visible and public statement of ostensible organizational values, duties and obligations. As such they can both play a role in controlling members' behaviour and present a particular public image of the organization to stakeholders."*

As such, codes are used to establish a baseline for action within the corporation. According to Mathews (1990), corporations and their executives use written codes of ethics to demonstrate 1) social responsibility, 2) a corporate culture that promotes anti-criminal behaviour patterns, and 3) the possibility of self-regulation. However, even if codes do provide a potential form of self-regulation, most research has shown that the relationship between codes of ethics and behaviour is minimal (e.g. Mathews 1990, Donaldson 1992, Carasco and Singh 2003). This has naturally roused much discussion about whether codes of ethics are merely window-dressing and a public relations activity rather than an indication of real intentions to put the made commitments into practice. However, there is also some research arguing that codes of ethics do not typically stand in isolation but are associated with a greater attention to ethical issues than is found in companies without codes (Guillén et al. 2002).

Along with the increasing importance given to business ethics in general, codes of ethics have also naturally become more and more popular in recent years. Adopting codes of ethics started as an essentially American practice, which has slowly made its way to Europe via the subsidiaries of US firms (Langlois and Schlegelmilch 1990:524). According to a research comparing the state of business ethics in the US and in Europe (Guillén et al. 2002), as much as 93% of large US companies already have a written code of ethics. The number of codes in European countries seems to be increasing all the time but is still well behind the American one. According to the same research, the adoption of codes of ethics is also a relatively recent phenomenon: 70% of the codes in the US were created after the year 1990.

Many reasons behind the trend of adopting codes of ethics have been identified in academic literature. First of all, codes being the manifestation of ethical affairs in general, their popularity clearly results from the increasing attention given to ethical issues in business. This is the reason prevalent in business ethics literature. Related to the growing ethical consciousness, codes of ethics are seen in two very different ways: either as principles that companies truly seek to follow (mainstream business ethics literature), or as a way to enhance corporate reputation and brand image among ethically aware consumers (business ethics critics).

However, other reasons have also been identified. One of them is the globalisation of markets and the increasing internationalisation of companies. Besides the effect that globalisation has on the increasing importance given to business ethics, the internationalisation of companies has a more direct link with codes of ethics as well. That is, codes of ethics are often seen as a means to create a common corporate culture, as a statement of core principles that are universally applicable in an international company. They are thus meant to create a sense of community among employees, across national boundaries. Nevertheless, for this purpose, the values or principles that a code brings out need not necessarily be related to moral action. One could thus assume that the ethical content of a code (if one actually exists) still results from the growing importance of ethical considerations in general.

2.1.5 Ethical Theories and the Morality of Actions

From the point of view of this study, two fundamental issues to be addressed in business ethics are the morality of actions and the related moral reasons for action. This issue is probably best approached through different ethical theories that suggest criteria for determining which actions can be considered moral. It has to be noted though, that with this goal in mind, it is explicitly *normative* ethical theories[4] that are relevant. The most important normative ethical theories are *teleological or consequentialist* and *deontological or non-consequentialist* theories. These theories, which will be presented next, are discussed practically in every book on business ethics.

Teleology (Utilitarianism)

Utilitarianism is a theory of ethics (or a group of theories) that is most generally referred to when discussing teleological or consequentialist theories. According to Utilitarianism, it is the usefulness of actions, their result, which determines their moral character. An action that results in more good has more utility. (Chryssides

[4] Discussed in Section 2.1.2, p. 16.

and Kaler 1993) Thus, a morally good action is one that *"produces, or tends to produce, the greatest amount of good for the greatest number of people affected by the action"* (DeGeorge 1990:43). In other words, actions are not good or bad in themselves, but rather they are to be judged by their consequences.

Utilitarianism has more than one version. Commonly, a distinction is made between *Act Utilitarianism* and *Rule Utilitarianism*. Act Utilitarianism assesses each act for the good it produces and then chooses the act that produces the most good in the given situation. Rule Utilitarianism again evaluates acts based on their consistence with rules for promoting the greatest good. (Sorell and Hendry 1994)

In brief, according to Utilitarianism, moral reasons are those that seek to produce as much good as possible for as many people as possible, either by complying with a relevant moral rule or by trying to choose the act that does so. Respectively, immoral reasons would be those that do not have this motivation, or worse, seek to produce as much bad as possible for as many people as possible. According to Utilitarianism, it is possible to serve one's own narrow self-interest and still have a morally good reason, provided that along with self-interest, also the maximum amount of good to others is produced. In utilitarian reasons, the final outcome is always the main motivating factor.

Deontology (Kantianism)

The theory most often identified with non-consequentialism in ethics is deontology. Deontology is very often simply referred to as *Kantianism*, after the German philosopher Immanuel Kant (1724-1804), who had a very strong influence on the branch of ethical theory. However, to be precise, deontological theories include not only Kantianism but also many other theories, for instance *theological ethics*.

According to Kantianism, an action is morally right if and only if it is motivated by good will (i.e. reasons of principle, sense of duty), and morally wrong if it is not. Thus, moral rightness or wrongness of an action is independent of its consequences; it is only the sense of duty or the lack of it that counts. Moreover, Kant recognises that things like kindness, loyalty, sympathy, and other "good motives" for actions are admirable, but they do not constitute moral motivation for acting and thus do not result in morally good action. (Chryssides and Kaler 1993) An important notice related to the Kantian tradition is the idea, that to be moral is to be *rational*. That is, we act morally when we specifically choose to act the way reason demands. "The reason" again is the moral law, which Kant calls the "Categorical Imperative", the highest moral principle. Kant gives three aspects of the Categorical Imperative that an action must have if it is to be a moral action: (1) consistent universalisation, (2) respect for rational beings as ends in themselves, and (3) autonomy of rational beings. Failing to pass one or more of these criteria makes an action immoral.

As Sorell and Hendry (1994) point out, Kant sets the standard for moral behaviour very high when arguing that doing the right thing is the only allowed motive for moral action. In reality, after all, people often have a mixture of different motives for actions (Zsolnai 2002). On the other hand, Kant's standard is very low, because the only requirement for moral action is rationality, not good nature, empathy or any other "good character". One has to note however, that there is a difference between *Kant's theory* and *Kantian theories*. Whereas Kant himself emphasises purity of moral motivation, other theories inspired by his thoughts ("Kantian theories") are usually less strict about the purity issue and rather put an emphasis on respecting people (Sorell and Hendry 1994).

Moral reasons according to Kant's own theory would thus be only reasons of duty, indicating compliance to the moral law, i.e. to the Categorical Imperative. Nevertheless, the less demanding Kantian theories accept some other reasons as well. According to Sorell and Hendry (1994), these would include at least reasons that consider society valuable in itself, not just as the source of consumption and labour. One should note though, that contrary to utilitarianism, Kantianism never allows self-interest to exist in morally valuable reasons. Consequently, one can argue that in practice, "good actions" in business would very seldom, perhaps never, be moral actions in the Kantian sense. This is because the good acts of even the most enlightened corporations are almost always justified in part on the grounds that such actions are profitable. (Bowie 2002) For example, being honest in business would not be considered genuinely moral if it is done to earn a good reputation, even if a person would be honest *also* because it is right (one's duty). This fact has provoked discussion about whether Kant's theory is too strict to apply to business. However, like Bowie (2002) noted, the general public tends to judge business from a strict Kantian position. In public discussion about business ethics, it often comes up that actions that enhance "the bottom line" are considered as acts of self-interest on the part of the corporation and thus cannot be called moral acts.

Virtue Ethics (Aristotelianism)

Even though Utilitarianism and Kantianism are the two most discussed ethical theories in business ethics literature, they are by no means the only ones. Among the other ethical theories, *virtue ethics* is one of the most discussed. It is premised on the thoughts of the Greek philosopher Aristotle (384-322 BC), who is best known for his emphasis on the cultivation of virtues. Consequently, the theory is often called *Aristotelianism*.

The basic idea of virtue ethics is that we are first of all members of community and our self-interests are most often identical to the interests of the community. Being virtuous, then, is *"an exemplary way of getting along with other people, a way of manifesting in one's thoughts, feelings, and actions the ideals and aims of the entire community"* (Solomon 1992:79), which according to Aristotle is of the greatest importance, as all ethics is contextual and it is "good judgement" that leads to correct or virtuous behaviour. In other words, virtue ethics rejects the idea that there could be moral duties or rules based on which one could easily judge an act "right" or "wrong". Instead, virtue ethics emphasises individual responsibility and cultivation of character, leading to good judgement of every situation. (Solomon 1992)

Regarding the morality, amorality, or immorality of reasons and acts, then, the Aristotelian approach does not give simple answers, as everything depends on the situation. It can be noted though, that virtue ethics rejects the idea that self-interest and virtues would be incompatible. It is recognised that there are occasions that demand self-sacrifice, but that usually self-interest and virtuous behaviour are not in conflict with each other (ibid.).

In sum, the views of different ethical theories on moral reasons for action will be illustrated with the following question: If it is in the interest of business to be socially responsible and to act ethically, and if it is done primarily because it pays, can it really be described as morally creditable—as good in an ethical sense?

1) **Utilitarianism**: Morality and self-interest are often compatible, but where the two conflict self-interest must give way to morality. So, if there is a conflict and a company chooses the way that pays over the way that produces most good, the answer is no. If there is no conflict or the choice is the way that produces most good, the answer is yes.

2) **Kantianism**: An act has to be performed without regard to self-interest, only from duty. Thus, the answer is no.
3) **Aristotelianism**: The demands of morality promote the kind of goals, namely happiness and well-being, that are always in one's self-interest to promote. So the demands of morality are always in one's interests to satisfy as well. Consequently, there is no conflict of interest and the answer is yes.

Amoral Reasons

As regards the difference between moral and amoral reasons, business ethics literature does not give many explicit statements, but rather concentrates on discussing what constitutes a moral (presumably vs. immoral) action. However, one could question whether the opposite of a moral reason and a moral act automatically has to be an *immoral* reason leading to an immoral act, as it often seems to be assumed. An act that is not moral could also be an *amoral* act resulting from amoral reasons. It has to be noted though that in Kantianism, it is clearly stated that if an action is not done solely out of duty, it is wrong, i.e. immoral. Utilitarianism, on the other hand, only defines what constitutes a moral act. Consequently, one could assume that even if an act would not be done to produce the greatest amount of good to as many people as possible, it does not automatically have to be an immoral act, but it could also be an *amoral* act, leading to a *morally acceptable,* if not genuinely moral, outcome.

Summary: Morality of Reasons—Definitions Employed

Despite the lack of clear discussion, one could define, based on the spirit of business ethics literature in general, moral reasons as reasons that are inspired by moral considerations (e.g. seeking to produce good, complying with moral rules, acting from a moral duty) whereas immoral reasons would be those that conflict or are contrary to these considerations (seeking to produce bad, violating moral rules, offending one's duty). Amoral reasons, on the other hand, refer to reasons that are invoked by considerations without any moral implications. These would include at least reasons related to external constraints, such as complying with laws, acting to avoid punishment, or conforming to general expectations. Amoral reasons lead to behaviour that is not bad in its consequences, and it may thus look like morality. This kind of behaviour could thus be called "quasi-moral" or "as-if-moral" behaviour (Gossling 2003). For example, if somebody refrains from killing a person to avoid going to prison, the act is neither genuinely right nor wrong in a moral sense, but rather a *morally acceptable* or *"quasi-moral"* act. Killing the person would clearly be immoral and refraining from killing because it is morally wrong would be genuinely moral. Similarly, if a company invests in cleaner production technology mainly to conform to its clients' expectations, the act would be considered amoral. Refusing to invest even though the old technology damages the environment (produces bad) would be immoral, whereas investing mainly to produce good to society by protecting the environment would be genuinely moral. In the same way, maximising profit can be seen as an amoral reason for action as such, as it basically implies neither moral nor immoral reasons and acts.

It has to be emphasised though that the above definitions of moral, immoral, and amoral reasons and acts are formulated according to the spirit of business ethics literature in general, and they do not fully comply with any of the theories discussed earlier. Nevertheless, they are the definitions used in this thesis. One should also take cognisance of the assumed relation between reasons for behaviour and the morality of that behaviour. According to the author, behaviour is not to be judged solely according to its consequences, nor is it to be judged solely by its compliance of a moral rule. The most important thing is the intention behind behaviour and its *assumed* consequences. In other words, a moral reason, as defined above, leads to moral behaviour despite of its eventual result. Behaviour with immoral reasons behind, respectively, leads to immoral behaviour, regardless of its final consequences. And likewise, amoral reasons lead to amoral behaviour.

2.1.6 Stakeholder Theory

When discussing business ethics, one cannot avoid colliding with the ideas of stakeholder theory, that is, the idea that corporations have responsibilities not only to their owners but also to their various stakeholders. The stakeholder approach has been popular for about three decades, and consequently the discussion of the topic in academic literature is abundant. As ideas of stakeholder theory are presumably often found behind the adoption of codes of ethics, the basic reflections of the approach will be discussed next.

The term "stakeholder" appears to have been invented in the early 1960s as a play on the word "stockholder", to emphasise the point that along with stockholders, there are other groups having a "stake" in the decision-making of a corporation (Goodpaster 1992). Professor R. Edward Freeman, one of the pioneers of stakeholder theory, defines stakeholders as *"groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions. […] Stakeholders are those groups who have a stake in or claim on the firm"* (Freeman 1992: 39, 41). Stakeholder groups would include at least suppliers, distributors, customers, employees, stockholders, the local community, government officials, and the management of the company (Anshen 1980).

Wheeler and Sillanpää (1997) categorise stakeholders along two dimensions: social/non-social and primary/secondary. Social stakeholders are those that can be communicated with directly, whereas this is not possible with non-social stakeholders such as nature or future generations. Primary stakeholders have a direct stake in the organisation and are thus vital to the survival and success of the corporation, while secondary stakeholders are less involved with the organisation (governments, media, etc.).

The fundamental premise of stakeholder theory is that the interests of all stakeholder groups have to be taken into account in company decision-making. However, as the various interests often conflict, the task of management is to balance them so that no one stakeholder group is given primacy over others. (Freeman 1992) This view is obviously very different from the traditional idea of managerial capitalism, coming from the work of Adam Smith. According to the traditional "stockholder theory", also called "Friedmanesque" (Werhane 1994), companies exist to make profits and in the end are thus only responsible to their owners. In line with this view, there are also researchers (e.g. Barry 1998) who argue that it is specifically *irresponsible* for companies to interfere in the interests of other stakeholders and take on "social responsibilities" as, quoting the words of the famous critic of CSR Milton Friedman, *"the social responsibility of business is to increase its profits"* (Friedman 1992:33). All in all, the stakeholder theory may be widely discussed, but it is far from being widely accepted.

2.1.7 Business Ethics Critics

Business ethics researchers, for most part, seem to share a certain daze when it comes to the value and rationality of the ideas of stakeholder theory or the social responsibilities of corporations. However, a few critical views have also been presented about the topics.

The classic article "The Social Responsibility of Business Is to Increase Its Profits" of Milton Friedman (1992, originally published in 1970) is of course an important example. Briefly put, he argues that business organisations only have responsibilities regarding their shareholders and making profits, so long as they stay within the "rules of the game". All "social responsibilities" are out of the expertise of business organisations. They are best taken care of by governments.

In addition to Friedman, Barry (1998) has presented a very critical view on current ideas in business ethics. It could be argued that his views more or less encapsulate in academic terms most of the critical ideas present in today's public debate about corporate responsibilities. In short, Barry (ibid.) argues that even though we should indeed apply to business organisations the same conventional morality of a liberal society as we apply to all private persons, the current trend to moralise corporations to the extreme has really gone too far. He says that business ethics is actually imposing positive moral duties on business organisations ("supererogatory duties")—duties that private persons are not expected to perform. In other words, it is not good enough anymore for corporations to refrain from wrongdoing or to act morally in the conventional sense. Instead, they are also expected deliberately to do "good" for society, which in practice means forgoing opportunities for profit in the name of some supposedly compelling moral goal. For example, corporations are urged to refrain from downsizing out of benevolence, to the detriment of profit, even though in effect denouncing employees is strictly an *amoral issue* that depends only on economic circumstances and not on moral principles. Paradoxically, according to Barry, business ethicists wish to make the supererogatory duties strictly enforceable, either by positive law or at least by the force of public opinion. And, it is explicitly these supererogatory duties that are inconsistent with profitability, not the conventional moral rules. In other words, following Barry's ideas, the much-discussed conflict between ethics and business results mainly from the imposition of these excessive "moral" duties.

Quite out of tune with other business ethics writers, Barry (ibid.) regards the stakeholder idea of business ethics in fact as a form of immorality. He justifies his view with the fact that according to the stakeholder idea, *"stakeholders are being used merely as means to the ends of other stakeholders, or at least to the ends of a shadowy collective entity"* (ibid: 75). This would actually mean turning commercial enterprises into non-profit organisations. The idea is by no means new, but is in fact very similar to the ideas of Milton Friedman (1992), who strongly condemned the view that shareholders' money could be used to whatever ends the managers of a company wished and thus shareholders as a group would be used merely as an instrument to attain other ends. Also Vaughn (1997, quoted in Joyner and Payne 2002) warns of the dangers of being ethical at any cost: *"They* [managers] *need to remember that their shareholders are not empowering them to manage charities but are asking them to manage their corporations"*. The writers criticise business ethics researchers of not accepting the fact that the major purpose of a corporation is to maximise shareholder value and of not recognising property ownership as decisive in the control of a business organisation. They also reject the view of most business ethicists that private enterprise exists only by permission of society and that consequently, companies owe something to society. This view can be seen e.g. in the common demand that companies should be charitable, give away part of their profits for the benefit of society.

2.1.8 Overview

As a conclusion one could say that business ethics seems to be a very wide and still very vague topic area covering numerous issues. There is still a great deal of ambiguity concerning what business ethics is and even the sense of bringing ethics into the business world still seems to be questioned by many. However, it seems that discussion on business ethics is ever more intense and that the importance of the field is only going to increase in the (near) future.

As the research and discussion in the field of business ethics has, for most part, been taking place in the US, it has to be noted that most of the issues dealt with in business ethics literature have a distinctively American character. However, in recent years some research has shown that there is a difference between the approaches to business ethics in the US and in Europe. According to Guillén et al. (2002), for instance, the Americans have a more normative, legalistic and practical approach to business ethics than Europeans. Moreover, business ethics in practice, at least in the form of written statements, is also still significantly more widespread in the US than in most European countries. Despite that and the fact that academic research of business ethics was pioneered in the US, however, the field has also become quite popular in other parts of the world, especially in Europe. This can be seen for instance in the growing popularity of company codes of ethics, as discussed earlier. One can thus probably expect to see more "European" approaches and issues in the field in the future.

2.2 Institutional Theory

This section begins with a brief overall survey of organisational institutional theory. The field is then examined in terms of its history and relation to other branches of organisational studies. Following this, the features of institutions and their implications for organisations are reviewed. Finally, the differences between institutional and relational contexts are discussed. Definitions of the key concepts (e.g. institution, legitimacy) are provided in the text in appropriate contexts. They are also explained in Appendix 1.

2.2.1 Institutional Theory in a Nutshell

The central idea of organisational institutional theory is that organisations existing in institutionalised environments must conform to institutionalised rules, norms, and taken-for-granted assumptions if they are to gain *legitimacy*. Legitimacy is again of utmost importance as it facilitates access to resources and thus increases the survival capacities of an organisation (e.g. DiMaggio and Powell 1991, Meyer and Rowan 1977). An important point here is that conforming to institutions most often conflicts with principles of efficiency. Therefore, pursuing efficiency by coordination and control and seeking support and legitimacy by conforming to institutions are, as a general rule, mutually exclusive options; when an organisation chooses one it automatically gives up the other. However, since even among market driven organisations productive efficiency may have relatively little to do with survival, conforming to institutionalised norms at the cost of efficiency is most often the optimal solution. Furthermore, according to Meyer and Rowan (1977), institutionalised rules and norms function as powerful myths, and many organisations adopt them ceremonially. In other words, in the case of strong pressures for efficiency, organisations often adopt structures, procedures or rules ceremonially, i.e. “just for the show” and maintain a loose coupling between the public face and the real structures of the firm (Scott 1981). Still, ceremonial adoption of structures being the case or not, by conforming to institutional environment, an organisation becomes optimal, if not efficient, because in this way it best increases its survival capabilities (DiMaggio and Powell 1991).

2.2.2 The Field of Institutional Theory

Origins and Current State

Generally speaking, the origins of contemporary institutional theory can be traced to the late nineteenth century when institutional thought first came up in economics, political science, and sociology. However, even if institutions were identified and analysed relatively early by social scientists, it was not until the mid-1970s when institutional theory was first properly introduced in the organisations scene. (Scott 1995) Since then, the theory has created much attention and interest, and the enthusiasm about institutions does not seem to be ceasing—quite the contrary. Research under the banner of institutional theory has already covered a wide range of phenomena and more research seems to be coming up all the time.

Despite the increasing amount of interest and research regarding institutional theory, the field remains rather unclear. To begin with, the differences between the “old institutionalism” and the “new institutionalism”, also called “neoinstitutionalism” (Scott 1995), are considerable. Briefly put, in the “old institutionalism” issues of influence, coalitions, and competing values were central, along with power and informal structures, and the focus was on individual organisations and their institutionalisation. The “new institutionalism”, in contrast, emphasises the concept of legitimacy, the embeddedness of organisational fields, and the centrality of classification, routines, scripts and schema. (Greenwood and Hinings 1996, Selznick 1996) In addition to the differences between the old and the new institutionalism, there exist many "new institutionalisms" that also differ significantly from one another, a clear distinction being observed at least between economic/public choice variants and sociological variants of neoinstitutional theory. In addition, some researchers (e.g. Tolbert and Zucker 1996) complain that there is very little consensus on the definition of key concepts, measures, and methods within the institutional tradition. Even the concept of institution itself has several meanings, depending, for example, on the discipline and/or on the point of time in question. The definitions used in this study can be found in Appendix 1.

The theoretical roots of neoinstitutional theory in sociology and organisational studies can be found in several disciplines, including mainly cognitive and cultural theory, social psychology and anthropology, as well as ethnomethodology (Scott 1995). The new institutionalism in organisational analysis has thus a markedly sociological flavour. This branch of study is commonly said to be initiated by Meyer and Rowan in 1977, when their fairly radical, now considered classic article "Institutionalized Organizations: Formal Structure as Myth and Ceremony" was published (American Journal of Sociology). In this thesis, when talking simply about institutional theory, it is specifically this branch of study that is meant. For reasons of feasibility, the other branches of institutional theory are excluded from this study. Comprehensive reviews of them are provided e.g. by DiMaggio and Powell (1991) and Scott (1995).

Institutional Theory vs. Other Organisational Theories

When compared to other organisational theories, institutional theory is distinctively the one that most highlights cultural influences on decision making and formal structures (Barley and Tolbert 1997). Whereas other organisational theories, particularly the rational actor models, tend to see organisations as mere production systems, institutionalists view organisations as social and cultural systems as well (Scott 1995). Institutional theory is also the theory that has sought to respond to empirical anomalities within organisational studies. In fact, the emergence of the theory in the first place was mainly due to the fact that the way other theories explained the world was seen inconsistent with findings from the real world. (DiMaggio and Powell 1991) For instance, organisations were considered to function like their formal structures suggested, until researchers uncovered that there is in fact a considerable gap between the formal and the informal organisation (Meyer and Rowan 1977). This unsatisfactory situation encouraged researchers to look for alternative models that would be more consistent with the organisational reality observed (Kleymann 2002).

Prior to the birth of the "new institutionalism" in organisational studies, the area of study used in this paper, the field of organisational studies focused mostly on a view of organisations as rational actors. This view emphasises coordination and control, leading to productive efficiency, as the main success factors of formal organisations because inefficient firms are seen to be eliminated by competition. Rationality is considered as the driving force behind all organisational decision-making, constant utility-maximising calculations being reflected in behaviour. (e.g. Kleymann 2002, Tolbert and Zucker 1996)

As a contrast to this view, new institutionalism in organisation theory and sociology

> *"comprises a rejection of rational-actor models, an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supraindividual units of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives"* (DiMaggio and Powell 1991:8).

The key insight of the revolutionary work of Meyer and Rowan (1977) was that formal structures have symbolic as well as action-generating properties and that the adoption of formal structures is not very dependent on the existence of coordination and control problems. They also argued that the social evaluation of organisations, and hence their survival, is not so much related to actual task performance but rather to observation of formal structures that function as manifestations of institutionalised rules and expectations. Consequently, "rational" action, according to institutionalists, does not necessarily aim at operational efficiency or at profit maximisation, but rather, there are different types of rationality which can also be directed e.g. toward acquiring or maintaining legitimacy. (Tolbert and Zucker 1996, Meyer and Rowan 1977, Kleymann 2002)

It seems that these two models of social actor, the rational actor model and institutional model are usually treated oppositional by institutionalists. Even the starting point for the new institutional theory was *"rejection of rational actor models"* as DiMaggio and Powell (1991:8) put it. However, a different kind of view is suggested by Tolbert and Zucker (1996), who argue that the two models should rather be seen as two ends of a continuum of decision-making processes and behaviours, not as opposites. They appear to consider both of the models a little too extreme to be valid as such and instead emphasise that it always depends on the situation how much rationality and/or social norms have impact on decision-making.

2.2.3 Characteristics of Institutions

Definition

Institution is one of the oldest and most often-employed concepts in social thought. The term has been given varying meanings over time, the old and the new ones still coexisting. (Scott 1995) Consequently, it has to be emphasised that the definition discussed here is pointedly related to the field of study referred to as "new institutionalism" and, specifically, to the branch dealing with organisational analysis.

The Oxford Dictionary of the Social Sciences defines institutions as *"deeply embedded patterns of social practices or norms that play a significant role in the organization of society"*. The dictionary also specifies that *"institutions can include diverse areas of social activity, from the family to basic aspects of political life"*.

Based on the fundamental work of Meyer and Rowan (1977), institutions can be defined as *"socially constructed templates for action, generated and maintained through ongoing interactions"* (Barley and Tolbert 1997:94). According to another definition, namely the one Barley and Tolbert (1997:96) use themselves, institutions are *"shared rules and typifications that identify categories of social actors and their appropriate activities or relationships"*. In other words, institutions are general assumptions and belief systems in the environment of organisations that define what a specific kind of organisation should look like and what it is supposed to do, and not to do, if it is to be seen as a member-in-good-standing of its class. They are beyond the judging ability of any one individual or organisation and, as such, they are simply taken for granted as legitimate, regardless of their effect on activity or performance. (Meyer and Rowan 1977)

Thus, to put it briefly, *"institutional norms deal with the appropriate domains of operation, principles of organizing, and criteria of evaluation"* (Kondra and Hinings 1998:744).

Institution—Property and Process

Institutions are often seen both as property and as processes, including the processes of institutionalisation and deinstitutionalisation (Scott 1995). In the process of institutionalisation *"certain social relationships and actions come to be taken for granted"* (Zucker 1983, quoted in DiMaggio and Powell 1991) and certain conventions attain a rationalised and rulelike status in social thought and action. Deinstitutionalisation on the other hand, is a process by which institutions weaken and disappear (Scott 1995). Institutions as a property refer to a state of affairs in which shared rules, norms, and taken-for-granted assumptions determine how things are and should be, what is legitimate and what is not (Zucker 1983, quoted in DiMaggio and Powell 1991). In other words, a structure that has become institutionalised is one that has become accepted by a social group as efficient and rational. This institutionalised structure tends to produce certain patterns of behaviour, which creates more stability in the environment (Tolbert and Zucker 1996).

The Three Pillars of Institutions

The central building blocs of institutions are commonly seen to include regulative, normative, and cultural-cognitive elements. In addition, the concept encompasses the behaviour and material resources associated to these symbolic elements. The three elements, called "the three pillars of institutions", can be seen as a continuum moving *"from the conscious to the unconscious, from the legally enforced to the taken for granted"* (Hoffman 1997, quoted in Scott 1995:51). All of these elements can also be seen as contributing to an institutional environment, even if their relative importance varies widely according to the social theorist in question.

The regulative pillar refers to the widely accepted fact that institutions constrain and regularise action. Regulative systems include rules, laws, and sanctions. Their way of making organisational actors comply is coercive force. Normative systems include values and norms, values referring to the preferred or desirable and norms specifying the legitimate means to pursue valued ends. Instead of coercive force, they use normative pressure as a mechanism to make organisational actors comply. The cultural-cognitive pillar recognises that *"internal interpretive processes are shaped by external cultural frameworks"* (Scott 1995:57). Cultural-cognitive systems include taken-for-granted assumptions, shared understanding, common beliefs, and shared logics of action—things that are mostly unconscious or pre-conscious. Compliance in cultural-cognitive systems comes quite naturally, because other ways of behaving are simply inconceivable as institutional arrangements are, by definition, taken for granted. The way of assuring compliance here is mimetic behaviour.

A Classification of Institutions

Kleymann (2002) has suggested a clarifying and interesting classification of institutions, based on two dimensions. First, she differentiates "High Code" institutions from "Low Code" institutions. "High Code" institutions are based on clearly defined regulations, norms, rules or laws, whereas "Low Code" institutions are vague, more contextual, and grounded in tacit understandings of "the way things are" or "the way things are done" in a certain context. Second, Kleymann (ibid.) distinguishes "strong" and "weak" institutions. "Weak" institutions are those that require only ceremonial adoption and are thus mostly used to gain legitimacy, whereas "strong" institutions require deeper assimilation, making them part of stakeholders' innermost mindsets. The following table gives some clarifying examples of Kleymann's four different types of institutions.

High Code	**"TRAFFIC LAWS"** Regulation, laws, associations etc. One needs to adhere to gain legitimacy and rules are clearly written down, but there is no requirement for actors to internalise these rules.	**"RELIGION"** Fairly clear stipulations and rules, wholeheartedly embraced, internalised and part of mindset.
Low Code	**"MANAGEMENT FADS"** On everybody's lips, but unclear conceptualisation. Variations in interpretations possible. Adherence is mostly displayed by actors in an aim to gain legitimacy.	**"DEMOCRACY"** Relatively loosely defined concept open to interpretation and adhered to in different ways according to context, but clearly a part of stakeholders' mindset; used as an 'icon'.
	Weak	Strong

TABLE 1: CATEGORISATION OF INSTITUTIONS (Kleymann 2002:164)

Kleymann (ibid.) also notes that institutions may pass from one category to another when they emerge or develop and that in some cases this shift may be accompanied with ambiguity and potential conflict. This could be the case e.g. when trying to formalise, i.e. "code", a strong low code institution into high code institution.

Multiple Levels of Analysis

One of the ways in which the various branches of institutional theory differ from one another is the level of analysis used. This is a relatively important aspect to notice, as the scope of the phenomena studied varies considerably according to the level of analysis. According to Scott (1995), at least six different categories of levels can be identified: world system, society, organisational field, organisational population, organisation, and organisational subsystem. Most of these levels are widely employed by social scientists and all of them are of interest. Nevertheless, the most significant level for the interests of institutional theory seems to be the level of organisational field, also called *industry system* (Hirsch 1985, quoted in Scott 1995) or *societal field* (Scott and Meyer 1983). To be exact, this is explicitly the case with neoinstitutionalists, the "old institutionlists" focusing mainly on the level of individual organisations (Selznick 1996).

Carriers of Institutions

According to Scott (1995), institutions can be seen to vary in their mode of carrier or repository. He divides the carriers in four different types: symbolic systems, relational systems, routines, and artefacts. And, in this respect as well, different institutional theorists tend to vary as they favour and emphasise some carriers over others. (Scott 1995)

The concept of symbolic system is a fairly complicated one. In principle, symbolic systems may exist both in the wider environment, such as at the societal or at the world system level, or they may be specific to a certain organisation or to a subsystem of an organisation. Symbolic systems can also be considered to equate with the concept of culture in its broad sense, as both include rules and values as well as classifications, models, representations and logics (Jepperson and Swidler 1994, quoted in Scott 1995:78). Finally, depending on the elements of institutions emphasised, different symbolic systems are seen to dominate as carriers. For example, regulative theorists tend to emphasise the importance of rules and conventions, whereas normative theorists may stress the role of values and normative expectations. (Scott 1995)

Relational systems are *"carriers that rely on patterned expectations connected to networks of social positions: role systems"* (Scott 1995:79). Like regarding symbolic systems, relational systems may be either shared by many organisations or specific to a particular organisation. Moreover, the dimensions of relational systems emphasised also depend on the elements of institutions that dominate.

Institutions may also be carried by routines, which refer to *"structured activities in the form of habitualized behaviour […] and procedures based on inarticulated knowledge and beliefs"* (Scott 1995:80). According to Scott (ibid.), routines are the fundamental premise for stability in organisational behaviour, which result both in solid performance and organisational rigidities.

Artefacts refer to the material culture, such as technology. They, as well as the other carriers, are related to the different elements of institutions and thus vary according to them. They may also operate at various levels of analysis, ranging from the world system to organisational subsystems.

Resistance to Change

According to the basic principles of institutional theory, institutionalised rules, norms and assumptions are reproduced because actors in institutionalised environments cannot even perceive other alternatives for their action, or because they consider other options irrational, ineffective, or unrealistic (e.g. DiMaggio and Powell 1991).

Additionally, even when alternatives are perceived and considered feasible, once established, institutions remain resistant to change. This is the case even if an institution would be collectively sub-optimal. One reason behind this is transaction costs of institutional change. In other words, even if an institution would be sub-optimal, the gains from altering the institution are often outweighed by the costs of making the changes, which makes institutions easily unaltered even if they would serve no one's interests. (DiMaggio and Powell 1991)

A further reason for organisations' resistance to change is risk aversion. Even if organisational actors identify opportunities for more effective action and better performance, they often resist changing existing structures because of preference given to performance stability (performance falling within institutional range of performance) over seeking high and uncertain performance. This preference is encouraged by the fact that organisations operating within the institutional range of performance (i.e. achieving "normal" results) have their performance evaluated acceptable by shareholders. Consequently, management positions of the organisation are usually kept unaltered. In other words, there exists no incentive for change, because performing acceptably by merely keeping up with the industry average is good enough for any one organisation as this way management best ensures maintaining its own positions in the organisation. (Kondra and Hinings 1998)

Change

Though institutions function to provide stability and order and are, by their nature, resistant to change, they actually do change over time—either gradually or abruptly (Scott 1995). However, even though the possibility of change is recognised by institutionalists, institutional theory has not thoroughly addressed the question of *how* or *why* institutional rules and norms change (see e.g. Oliver 1992; Powell 1991, quoted in Kondra and Hinings 1998). In fact, institutional theory is not usually considered as a theory of organisational change at all, rather the contrary: it is considered as a theory explaining similarity and stability of organisational arrangements (e.g. Greenwood and Hinings 1996). Consequently, only a few views about the factors behind institutional change have been presented in the field.

Meyer and Rowan (1977) have addressed the question of change rather briefly. According to them, change in institutional environments occurs along two dimensions. First, powerful organisations in an organisational field force other organisations to adapt to their structures and relations. Second, these powerful organisations also try to introduce their structures and procedures directly as institutional rules for the society. The powerful organisations have also been called *"issue sponsors"* (Dutton 1993, quoted in Kleymann 2002). These issue sponsors can be thought of as "champions" of an emerging institution, as organisations that *"raise the legitimacy (or perception of legitimacy) of a concept or idea to the extent that it becomes an institution"* (Kleymann 2002:161).

A more in-depth analysis about institutional change is provided by Kondra and Hinings (1998). They argue that the essential force leading to change in institutional norms is diversity, because for change to be initiated there must be an organisation that deviates from institutional norms and performs outside institutional outcomes. According to their view, organisations do deviate from institutional norms, either by choice or by chance, although the stronger the institutional environment and thus the pressure to conform, the less organisations tend to deviate. If an organisation deviating from the institutional norms performs above the institutional range of performance, other organisations in the field may have an incentive to mimic that organisation. If this happens successfully, a critical mass of organisations may be reached that is able to assign the new procedure or structure enough legitimacy to make it the new institutional norm in the field. Even so, it is possible that other organisations in the field do not want to mimic the deviating organisation. They also might react by using coercive force to make the deviating organisation comply with the established institutional norms of the field. This happens especially where institutional norms have legal, moral, or economic aspects. Moreover, it must be noted that even when change occurs, it may only be "trendy" and have no long-term benefits, or it might even be harmful for the organisations that have changed their structures. (Kondra and Hinings 1998)

An interesting concept related to institutional change is that of *agency*, mostly discussed by Scott (1995). The concept refers to *"an actor's ability to have some effect on the social world, altering the rules or the distribution of resources"* (Scott 1995:76). The way institutional theorists have tended to view individual actors' ability to influence the institutional environment has varied greatly. Generally speaking, early neoinstitutionalists, such as Meyer and Rowan (1977) and DiMaggio and Powell (1983), have mostly stressed the power of institutions to constrain organisations' actions. They seem to have regarded organisations themselves as lacking real power to make a difference in the flow of events. For example, as discussed above, Meyer and Rowan (1977) only consider the powerful organisations of a field to be able to make a contribution to institutional change. Nevertheless, the more recent work on institutional theory, for example from DiMaggio and Powell (1991) and Scott (1995), has better recognised the role of agency in the creation, maintenance, and transformation of institutions. The theorists behind this work argue that complete and uncontested institutionalisation is rare and that interests and agency play a role in determining how organisations handle institutions (Goodrick and Salancik 1996). Thus, they emphasise the power that individual actors have to innovate, act strategically and influence institutional change. For instance, according to Scott (1995), all actors, both individual and collective, have agency to some extent, but the level varies a lot among actors and types of social structures.

Actually, recent views in neoinstitutional theory have emphasised agency, and thus the role of organisational interests, to such an extent that, according to Goodrick and Salancik (1996), they even risk discounting the social-fact quality of institutions, just like earlier theorists discounted the role of agents. As a response to this flaw, the authors have suggested an alternative view, one that values the role of agency while preserving the essential features of the institutional perspective. They argue that while institutional standards do determine action when they are certain, institutionalisation is not always complete and thus institutional standards may sometimes be uncertain. In such a case, they will be unable to constrain actions completely and a range of acceptable practices is legitimate within a particular institutional context. Organisations may thus generate variation in practice while conforming to their institutions by pursuing their strategic interests within the limits permitted by the uncertain institution. In other words, Goodrick and Salancik see institutions as "*defining the very conditions under which agency is able to influence the adoption of organizational structure and practices*" (Goodrick and Salancik 1996:25-26). This assumption was actually raised by Galaskiewicz already in 1991 in his study about institution creation by corporations in urban social systems. Also he concluded that "*organizations will respond to social pressures emanating from the larger society and make strategic choices on those grounds*" (1991:309).

2.2.4 Implications of Institutions for Organisations

Structures, procedures, or rules that have attained an institutional status are presumed to have a profound impact on the behaviour of organisations. The various ways in which institutions affect organisational life are discussed next.

Legitimacy

One could argue that the core of institutional theory is the concept of legitimacy. According to institutionalists, organisational environments are *"characterized by rules and requirements to which individual organizations must conform if they are to receive support and legitimacy"* (Scott and Meyer 1983:140). Legitimacy is thus the underlying reason why institutions have such a profound influence on organisational life. By definition, legitimacy is

> *"a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"* (Suchman 1995:574).

Scott (1995:59) further describes legitimacy as follows:

> *"Legitimacy is […] a condition reflecting perceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive frameworks. […] It is a symbolic value to be displayed in a manner such that it is visible to outsiders"*.

The "socially constructed systems" referred to in the definition obviously mean institutional frameworks. In other words, as Meyer and Rowan (1983, quoted in Scott 1995:59) state briefly, *"organizational legitimacy refers to the degree of cultural support for an organization"*.

Legitimacy is the very core of institutional theory, because it is the utmost reason why organisations conform to institutionalised rules and norms. Organisations conform in order to become legitimate in the eyes of the society, to become "good corporate citizens" that are seen to act on collectively valued purposes in a proper manner. The goal of organisations in trying to become legitimate is to protect themselves from having their conduct questioned, as social acceptance is vitally important for organisational survival. If seen as a member-in-good-standing of society, an organisation is much more likely to be trusted and, thus, have access to important resources (e.g. bank loans and employees), consequently increasing its survival capacities. On the other hand, organisations that do not incorporate environmentally legitimated structures lack legitimacy and are more vulnerable to claims that they are negligent, irrational, or unnecessary. These kinds of attitudes can mean real costs for the organisation. (Meyer and Rowan 1977)

All this implies that even if conforming to institutionalised rules and norms may not be efficient in productive terms, it most probably is the optimal solution for an organisation anyway. According to institutionalists, immediate efficiency is in reality much less important than often considered and acting, or at least pretending to act, according to institutionalised arrangements is in fact considerably more important, even a prerequisite, for survival.

Sources of Legitimacy

Different theoretical approaches have identified various sources of legitimacy (Mazza and Alvarez 2000). From the works included in this paper, one can bring forward at least three different views concerning the sources of legitimacy: the view of Scott (1995) based on the three pillars of institutions, the view of Suchman (1995) based on three different types of legitimacy that he distinguishes, and the view of Mazza and Alvarez (2000) focusing on the concepts of conformity, social support and dramatisation.

The view based on the three pillars of institutions[5] takes a general approach to the sources of legitimacy by simply recognising that conformity to institutions leads to legitimacy. The three pillars of institutions represent three related but different elements of institutions and thus three related but different bases of legitimacy. According to the regulative pillar, organisations that are established and operate in accordance with the law and quasi-legal requirements are legitimate. After the normative pillar, legitimate organisations are those that comply with moral obligations. The cultural-cognitive pillar again links legitimacy with organisations with cognitive consistency, that is, with organisations adopting a common frame of reference. Thus, the bases of legitimacy are quite different in each of the pillars and the various bases may sometimes be in conflict with one another. Moreover, what is finally taken as evidence of legitimacy depends on which elements of institutions (pillars) are emphasised. (Scott 1995)

Suchman (1995) has discussed the concept of legitimacy in great depth. He distinguishes three broad types of legitimacy, termed *pragmatic legitimacy*, *moral legitimacy* and *cognitive legitimacy*. Even if all three types share a general perception of legitimacy discussed above, they rest on a slightly different behavioural dynamic.

Pragmatic legitimacy rests on the self-interested calculations of an organisation's most immediate audiences or constituencies whose well-being is directly affected by the organisation's actions. Thus, an organisation can gain legitimacy by displaying responsiveness to constituent well-being. Moral legitimacy, on the other hand, rests on judgments about whether an organisation's activity is "the

[5] See Section 2.2.3, p. 43.

right thing to do". Unlike in pragmatic legitimacy then, the judgments are about general social welfare, defined by the audience's socially constructed value system, not about direct benefits to the evaluator. In the ideal case, organisations are judged based on what they accomplish. However, outcomes are often difficult to evaluate and thus moral legitimacy is garnered by embracing socially accepted techniques and procedures, by adopting institutionally prescribed structures, or relying on the charisma of individual organisational leaders. These convey the message that an organisation is making an effort to achieve collectively valued purposes in an adequate manner. The third type, cognitive legitimacy, does not rest on interest or evaluation, but on cognition, i.e. comprehensibility or taken-for-grantedness. In other words, legitimacy is granted to organisations that are understandable and consequently considered predictable, meaningful, and inviting, or to organisations whose practices and presence to be different is literally unthinkable. In practice, organisations gain cognitive legitimacy mostly by conforming to established models or standards. (Suchman 1995: 578-585)

The third view, the approach presented by Mazza and Alvarez (2000), focuses on three concepts as the main sources of legitimacy: (1) conformity, (2) social support, and (3) dramatisation. Conformity simply refers to the widely accepted idea that legitimacy is gained by displaying conformity with the external (institutional) environment. Social support refers essentially to a common situation where the endorsement of powerful collective actors leads to legitimacy, for example to the legitimacy of a new procedure. These powerful actors may be either large corporations or young, innovative, and profitable firms. The idea is that leading organisations adopt practices that other organisations then mimic. When a practice receives continuous social support, it eventually becomes taken for granted. The third source, dramatisation, refers to the creation of legends and myths and manifesting their spectacular effects on performance by using dramatised language.

The three views on the sources of legitimacy are somewhat different from one another. The first two take organisations as the actors seeking legitimacy, whereas the third focuses more on the legitimisation of procedures and practices. However, one could, perhaps, see these two different standpoints being just different sides of a coin, as legitimate organisations are often those that incorporate legitimised procedures and practices.

All in all, the ideas of Mazza and Alvarez (2000) stand, nonetheless, slightly apart from the other two views. Indeed, Suchman's (1995) three types of legitimacy seem to be quite close to the three pillars of institutions. However, he does not discuss regulative issues but instead considers pragmatic interests more important in gaining legitimacy. In addition, Suchman's (ibid.) discussion about garnering legitimacy seems to be more comprehensive as he emphasises the fact that legitimacy is a *perception* or *assumption*, not something that is possessed objectively. Consequently, unlike Scott (1995), he does not limit gaining legitimacy to actual compliance (that might even go unnoticed) but identifies alternative ways of *showing* or *implying* desirability and appropriateness. Indeed, according to Suchman (1995:588) "*outputs, procedures, structures, and personnel can all signal that the organization labors on the side of the angels—even if these supposed indicators amount to little more than face work*".

Constraints on Perception, Action, and Performance

Institutions represent constraints on action by restricting the opportunities and alternatives we perceive. In fact, institutions are more than mere constraints on alternatives as they actually establish the criteria by which we identify our preferences in the first place (DiMaggio and Powell 1991). Still, institutions do not completely determine action as these constraints are open to change, even elimination, over time. However, as mentioned before, institutions are (almost by definition) resistant to change.

Organisations conforming to institutionalised arrangements are also bound to an institutional range of performance. By failing to conform, or by choosing not to conform, to institutional rules and norms, an organisation's performance can potentially have a significantly wider range of outcomes (DiMaggio and Powell 1991). Conforming to certain principles of action increases the probability of a certain kind of behaviour over other kinds of behaviours. This makes the behaviour of different actors more predictable and thus increases stability in the environment.

Opportunities

Institutional rules and norms are widely recognised as constraints on action. Nevertheless, it should be noted that they also offer organisations great opportunities by empowering and supporting activities and actors (Meyer and Rowan 1977, Scott 1995). For example, labelling activities with institutionally respected issues can significantly add to their value and increase the support the organisation is receiving from the society. An organisation operating in an institutional environment can also benefit from ceremonial criteria of worth and ceremonially derived production functions that legitimate the organisation among its stakeholders and serve as tools to demonstrate socially the fitness of the organisation. Additionally, institutionally controlled environments are relatively stable and thus protect organisations from turbulence (Meyer and Rowan 1977). This naturally facilitates organisations' operations in the field.

Isomorphism

According to institutionalists, the tendency to conform to an institutional environment constraints the variety of organisational responses to the environment and limits the organisational forms found in a field, thus making the organisations of a field look increasingly similar (e.g. Kondra and Hinings 1998). This process of homogenisation is labelled *isomorphism*. It is a phenomenon related to institutional theory that has been studied especially by DiMaggio and Powell. Isomorphism can be defined as *"a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions"* (Hawley 1968, quoted in DiMaggio and Powell 1983:149). DiMaggio and Powell (1983) argue that in the first stages after establishment, organisational fields are often characterised by diversity in forms and procedures. Nevertheless, over time the field faces a push towards homogenisation, which makes the actors of the field to create an environment that restricts the field's ability to change in the future. The push towards isomorphism has three sources: (1) coercive practices by governments, regulatory agencies, and accreditation bodies, (2) mimetic behaviour of organisations resulting mainly from risk aversion, and (3) normative pressures that result mainly from professionalisation. (DiMaggio and Powell 1983, Kondra and Hinings 1998)

Isomorphism is closely related to stability as it results in organisations acting similarly and predictably. Due to this, isomorphism can be said to promote the success and survival of organisations. However, it has to be noted that this structuration of organisational fields makes organisations more similar without necessarily making them more efficient. Consequently, a field often continues to perform less efficiently than it could, nonetheless making everyone happy as organisations are seen to fit to institutionalised arrangements and to perform within the institutional range of performance, which is considered to indicate success, or at least acceptable outcome. (DiMaggio and Powell 1983) This implies that performance and success are not absolute notions, but relative notions. This is also the reason why isomorphism is often considered inefficient: it encourages contenting to below-possible performance. However, Kondra and Hinings (1998) argue that when taking risk aversion into account, this kind of organisational behaviour is actually optimal, by the dominant coalition's standards at least. By risk aversion the authors refer, for example, to the fact that an organisation's management may have an interest in keeping the organisation's performance lower than would be possible but carefully within the institutional range of performance, because this increases the probability that the performance will be judged acceptable and the management will maintain their own positions in the organisation. Thus, playing safe and staying within the institutional range of performance is the optimal solution as it minimises the risk of performing below the industry average and being judged failed, a risk involved in seeking higher (and uncertain) performance. As a consequence, there is an incentive not to question institutional rules and norms and just take them for granted, which further consolidates the institutional environment of the organisational field.

DiMaggio and Powell (1983) argue that the concept of institutional isomorphism is a useful tool for understanding the politics and ceremony very much present in the contemporary organisational life. Isomorphism can, for example, help to explain the irrationality and the lack of innovation in many fields today. Nevertheless, it should be emphasised that isomorphism is a phenomenon that varies between industry fields and that different organisational fields are (in institutional terms) relatively independent of one another. (DiMaggio and Powell 1991)

2.2.5 Institutional vs. Relational Contexts

When losing oneself in the world of institutional theory highlighting the presence of an institutionalised environment, the great impact of its requirements, and the major role institutions have in organisational success, it becomes easily forgotten that not all environments are highly elaborated in institutional terms. Therefore, even if becoming isomorphic with an institutional environment leads to legitimacy and practically guarantees success in a highly elaborated institutional environment, it has to be emphasised that this only happens in such an environment. Consequently, in some environments, conforming to institutional demands may actually be less important than being efficient in productive terms. It all depends on the environment in question. (Meyer and Rowan 1977)

However, as Meyer and Rowan (1977) noted, all organisations, to one degree or another, exist in both relational and institutionalised contexts and are thus concerned both with demands of efficiency (relational demands), that is, coordinating and controlling their activities, and with conforming to institutionalised myths (institutional demands). The relative importance of these two contexts varies among environments, which means that the demands most relevant for success have to be analysed case by case. In fact, the authors suggest that organisations could be ordered along a continuum, with production organisations, whose success depends on relational networks, at one end and institutionalised organisations, whose success depends on legitimacy based on isomorphism with institutional requirements, at the other end. The same kind of continuum has been later suggested by Tolbert and Zucker (1996) with the two models of social actor, the rational actor model and the institutional model, at the ends. Thus, also they suggest that the relative importance of rationality and conformity to social norms varies among situations.

2.2.6 Overview

As a conclusion one might say, that a striking feature characterising the field of neoinstitutional theory in organisation studies is uniformity of views. In other words, the institutional theorists included in this study seem to agree on the great majority of issues. Evidently, this is partly because the branch of study dealt with in this paper is only one part of the broader field of institutional theory. Consequently, the major differences of views existing in the field at large are already excluded from this study. Even despite this fact, the researchers of the field seem to think surprisingly similarly about the major issues in institution theory. In fact, just like Scott (1995) has noted, the most important disagreement between the different institutional theorists is concerned with according priority to the various institutional elements, and even this disagreement is mostly found between different schools of thought in institutional theory, not within the branch of study used in this paper.

2.3 Business Ethics as an Institution

On the basis of the discussion in the previous sections, one can rather safely argue that business ethics may be taken for an institution. In fact, business ethics seems to align more or less perfectly with the characteristics of an institution. Some of these characteristics will be discussed next. Following, the traditional view and institutional views on business ethics will be compared and, finally, the implications of regarding business ethics as an institution are discussed.

2.3.1 Grounds for Regarding Business Ethics as an Institution

One important trait of business ethics linking it to institutions is that business ethics quite obviously distinguishes legitimate from illegitimate action by determining what business organisations are supposed to do and what they are not to do. In other words, business ethics principles determine which action may be considered ethical, thus legitimate, and which action should be labelled unethical and illegitimate.

Another characteristic of business ethics indicating it being an institution is that business ethics has become increasingly taken for granted as rational and effective, as "the thing to do". Several researchers discussing business ethics do acknowledge that there is a conflict between the economic performance (i.e. efficiency criteria) and the social performance (i.e. institutional fit) of an organisation, but just like institutional theory suggests, it is often stressed that, in the end, "good ethics is good business". Thus, the above slogan represents a myth of rationality, suggesting that it is also in the business interests of an organisation to act ethically.

Furthermore, business ethics appears to be widely considered as a "necessity" for business organisations without anyone really specifying *why* it is a necessity. The answer from the institutional theory point of view is, naturally, that caring for business ethics is necessary to gain legitimacy, which, in turn, increases an organisation's survival capabilities. It seems rather unsatisfactory that a relevant point like this is more or less ignored by business ethics researchers. "Necessity" to act ethically is simply taken for granted without any questioning the reasons behind it. Moreover, some business ethics researchers (e.g. DeGeorge 1990) argue that as morality is an integral part of any society, business organisations acting in a society are necessarily moral actors and cannot escape taking business ethics into consideration. In other words, business ethics is seen as a must whose presence cannot be changed and should not be questioned. This, if anything, unquestionably indicates that business ethics can be taken for an institution.

Business ethics can also be seen to collide well with the three pillars of institutions. Moral rules can be made explicit by legislation, they can be spoken norms of conduct, or unspoken social agreements. For example, there are laws related to the amount and nature of releases allowed for an industry, but in addition, it is expected by the public that companies reduce their releases even more than required by law. The trend in many western countries seems to be that moral rules related to business are increasingly made part of legislation, especially when it comes to issues of environmental protection or employee rights. Moreover, along with the increasing public discussion around business ethics issues, many unspoken social agreements are also now being made spoken norms. Using Kleymann's (2002) terms[6], the institution of business ethics may thus be in the process of "coding", taken-for-granted assumptions being coded into norms and norms being coded into rules and laws. This process, however, is not a global phenomenon, but seems to be taking place mostly in some developed Western countries.

When thinking about Kleymann's (ibid.) categorisation, one could argue that business ethics, generally speaking, matches well with the category "management fads", being thus a weak and low code institution. Business ethics is, undeniably, a widely discussed topic today, both among business people and people outside the business world. However, as discussed in Section 2.1.2, it still remains a vague domain without clear conceptualisation. Different definitions flourish, as an example, when talking about codes of ethics, and so do different conceptions of what constitutes a moral, i.e. legitimate, action. In this respect, even though

[6] See discussion in Section 2.2.3, p.44.

business ethics would be in a process of coding, as of yet, it is hardly moving from a low code category to a high code category. It also strongly seems that business ethics is a weak institution. As discussed in Section 2.1.1, there is still much disagreement about its value and it cannot really be considered as part of people's innermost mindsets, at least not in general. As seen in many real world cases lately, codes of ethics *can*, indeed, be ceremonially adopted to gain legitimacy, even though it might not always be the case.

Another important issue here is the striking similarities between some of the vocabulary of institutional theory and that of business ethics. For example, the concept of corporate citizenship is very close to the definition of legitimacy, as legitimate organisations are those regarded as "members-in-good-standing of society". Even more specifically, one of Suchman's (1995) three types of legitimacy is "moral legitimacy" which naturally implies that business ethics and institutions are parts of the same game. Thus, according to Suchman (ibid.) the need to "do the right thing" is an institutionalised requirement to which organisations conform, or pretend to conform, to gain moral legitimacy.

2.3.2 Traditional vs. Institutional View of Business Ethics

Probably the most significant contradiction between the view of business ethics commonly held by business ethics researchers (i.e. the "traditional view") and that of business ethics as an institution is related to the morality of business organisations. As discussed in the section about business ethics, the great majority of business ethics books and articles regard business organisations as moral actors and view the amorality of business as a myth, as an irresponsible view of the relation between business and society held by people that do not understand better. As a result, caring for business ethics is considered to be the result of moral reasons.

In contrast, based on the institutional theory, business organisations must be seen as amoral actors. If seen as an institution, business ethics merely refers to a set of rules and norms existing in the environment to which organisations have to conform in order to gain legitimacy. Here as well, it is, in fact, important for organisations to take business ethics into account, but not for moral reasons nor even because it would be good business as such. The only reason is to gain legitimacy, which helps to get more resources and increase the organisation's survival capabilities. Thus, in the end, acting ethically is due to business reasons, even if the relation between these two is not direct but goes through legitimacy. It has to be noted though, that even if ethical behaviour may often be optimal also for business reasons through legitimacy, business organisations tend not to calculate this. Rather, they often make decisions irrationally, conforming to institutionalised norms (i.e. ethical principles) for other reasons, e.g. because they can perceive no other way of behaving. All in all, the morality of business organisations is a fundamental issue when discussing the reasons for adopting a code of ethics, and thus, this contradiction between the traditional and the institutional view of business ethics may be considered essential.

As mentioned above, the different ideas of the morality of business organisations held by business ethics researchers and institutionalists can also be seen in the views concerning the reasons companies are considered to have for following ethical principles. The view of business ethics researchers emphasises moral reasons as motives, whereas the institutional view stresses willingness to conform to institutionalised rules and norms, which often is rather irrational. As an example of irrationality one can bring up the slogan "good ethics is good business", which can be (from the institutional theory point of view) regarded as a myth of rationality, suggesting that it is also in the business interests of an organisation to act ethically. In reality though, good ethics is not always good business in operational sense. Relying on institutional theory, it is only through legitimacy that good ethics makes business sense, because due to legitimacy conformity to institutionalised ethical norms is usually the optimal solution even if it would mean giving up efficiency concerns. This, however, does not seem to be recognised, or at least not brought up, by people discussing business ethics.

Having said that, it still has to be noted that the slogan "good ethics is good business" also refers to the fact that a good reputation, being seen as a good corporate citizen (i.e. being perceived legitimate), sometimes benefits an organisation at the operational level as well, and so represents the link between ethical behaviour and business interests. However, this link is not clearly discussed by business ethics researchers in general. Actually, the lack of discussion is rather understandable, taking into account the generally held view that genuine morality involves a choice between adherence to a moral principle and the pursuit of self-interest, e.g. profit. Most business ethicists emphasise the view that there is a conflict between the ethical performance and the economic performance of a company and therefore regard caring for ethics as a sign of more or less pure goodwill that has no business aims, but actually results in sacrificing efficiency concerns (a Kantian view). Thus, being ethical results only from moral concerns of a business organisation, not from business interests. For example, being charitable in order to gain a favourable public image or to secure a tax advantage may well be profitable for a company, but with these reasons, the genuine morality of the action is highly questionable. This in mind the slogan "good ethics is good business" seems then very paradoxical and hypocritical when stated by a business ethicist. The idea that "morality pays" is after all just another way to say "business interests first"; exactly the idea that business ethicists are trying to fight against!

All the above discussion does not mean, however, that goodwill would always be considered as the *only* motivation behind ethical behaviour. There are many business ethics researchers (e.g. Chryssides and Kaler 1993) who talk about self-interests of companies for acting ethically (e.g. good reputation), but the point is that these reasons are treated as secondary. This view is, in fact, consistent with teleological ethical theories, which allow self-interest to exist, but emphasise that when in conflict, self-interest has to be secondary to producing good for society. By contrast, institutional theory suggests that it is above all *legitimacy* and the resulting increased survival capabilities that motivate companies to follow ethical principles. Briefly put, one could say that institutional theory recognises the link between the economic and the social performance of a company, whereas business ethics researchers in general see an inherent conflict between the two.

Related to the above conclusion, a further contradiction between the traditional view on business ethics and the institutional theory point of view is that the traditional view seems to regard organisations as rational actors, just like most of the schools of thought in organisational studies. For instance, business ethics researchers tend to consider productive efficiency as the main success factor and worry about the fact that ethical considerations often contradict with efficiency. Many researchers also point out that ethical considerations and business considerations should be balanced, as sometimes business interests just have to be put first. This balancing would obviously be based on rationality. By contrast, the institutional view emphasises that organisations are not rational actors and that productive efficiency is not the main success factor. Instead, decision-making is very much affected by the institutional environment and it is thus often non-rational (i.e. not based on rationality). To succeed, it is more important to conform to institutionalised rules and norms than to seek productive efficiency.

It has to be noted here that when analysing business ethics as an institution, it is mainly the conventional definition of business ethics that applies[7]. In other words, since an institution here refers to a certain set of rules, norms and taken-for-granted assumptions, to take business ethics for an institution, a certain stability of

[7] See Section 2.1.2.

the principles has to be assumed. The dynamic definition of business ethics suggested by Powers and Vogel (1980, quoted in Chryssides and Kaler 1993) seems therefore incompatible with the characteristics of an institution.

2.3.3 Theoretical and Practical Implications

It seems rather obvious that treating business ethics as an institution enables one to bring several new ideas to the discussion about the subject and most probably also helps to get further insight into the topic. In fact, regarding business ethics as an institution has implications for both the general conception of business ethics and for understanding the activities of business organisations.

To start with, formal structures of organisations may be seen in a different light. Traditionally, formal structures are seen to coordinate and control activity and, thus, function according to their blueprints. According to this view, codes of ethics would be elaborated rationally and always implemented in practice as planned. However, like early institutionalists (e.g. Meyer and Rowan 1977) noted, organisations do not actually function according to their formal structures. According to them, formal structures have most of all symbolic meaning and are adopted primarily for ceremonial purposes, i.e. "just for the show", in order to gain legitimacy, not to gain efficiency. This would mean for instance, that codes of ethics exist mainly as manifestations of institutionalised rules, as indicators of legitimacy of an organisation. As such, adopting a code of ethics would have nothing to do with actually *implementing* the ethical principles in question, as the main motivation behind conformity to institutions is gaining legitimacy, not actually acting according to the formal blueprints, in this case thus acting ethically. Acting in accordance with the codes in day-to-day work activities would be then considered secondary, if important at all. All this naturally implies that when adopting a code of ethics, the main point would be to effectively communicate about it, to make sure that the surrounding society acknowledges the institutional conformity of the organisation in question.

Related to the issue of formal structures is the issue of success factors. According to the view of business ethicists, and also to the rational actor models, it is the objective productive efficiency resulting from effective coordination and control of activities that leads to survival and success. Consequently, as ethical considerations often conflict with efficiency criteria, implementing codes of ethics must be seen to impede success and thus present a real burden for an organisation. Based on the institutional view, however, organisations could stop worrying about the negative effects that ethical behaviour has on productive efficiency, because it is still the optimal solution for a company to care for its ethical performance, even when it results in decreased efficiency. No balancing between economic performance and ethical performance would thus be needed.

It must be noted that the above conclusion only holds in highly institutionalised environments. In addition, as discussed in the Section about institutional theory, all environments are not highly elaborated in institutional terms. For example, it seems rather clear that business ethics can be considered as an institution in the US and also in many European countries, but not necessarily in other parts of the world, and not even everywhere in Europe. Naturally, this does not mean that companies in non-institutionalised environments/countries would consequently act unethically. Rather, it means that in these environments using codes of ethics is not institutionally required and thus companies might be less inclined to emblazon their ethical principles.

It should also be noted that institutions operate at different levels and it may be questioned if business ethics is institutionalised mostly on the society level, on the industry field level, or at some other level. For instance, even if business ethics seems to be highly important in the US, one may raise the question whether it is institutionalised in all industry fields or just for example in industries with consumer interface, where it would naturally get much public attention. The point is that in non-institutionalised environments productive efficiency can still be the most important success factor. And, between the two extremes, there are environments where institutional demands and efficiency demands have to be balanced.

The idea of different rates of institutionalisation fits rather well together with the concept of cultural relativism discussed by some business ethics researchers (e.g. Sumner 1988, quoted in Smith and Johnson 1996). Business ethics cannot be considered equally important everywhere, and ethical principles (institutionalised rules and norms) also vary according to the environment in question—a society, an industry field, or some other level. Consequently, the relative importance of business ethics vs. productive efficiency has to be analysed based on the environment in question, on a case by case basis. Having said this, it strongly seems that business ethics would be highly institutionalised in many western societies/industries and that it is getting institutionalised in an increasing number of environments.

One explanation to the increasing popularity of business ethics is said to be the changing nature of the world. As Meyer and Rowan (1977) have noted, the relative importance of institutional demands (vs. efficiency demands) depends, among other things, on the complexity of the organisation. They argue that organisations whose output can be easily controlled are more readily trusted and can thus rely on efficiency as the main success factor. On the other hand, organisations with ambiguous technologies and outputs that are difficult to evaluate do not become that easily trusted. Consequently, institutionalised rules are needed to promote trust and protect the organisations from failure. This point seems to be relatively elucidating, taking into account that today's business environments and companies are widely considered ever more complex with fine technologies and difficult-to-evaluate outputs. These are, for instance, a result of the importance shifting from simple primary or industrial products to the service sector in the Western world. Based on this view, it is no surprise that business ethics is fast increasing in importance; it represents a means to simplify the complex world. In other words, looking at the ethical performance of an organisation (codes of ethics serving as an indication) is like a rule of thumb helping people to determine which company should be trusted and which should not.

Related to the above discussion, it has to be specified that the rule of thumb serving as the base of legitimacy does not have to be, and probably rarely is, the actual ethical *performance* of an organisation. Rather, as outcomes in ethics tend to be difficult to observe or evaluate, structures and procedures often serve as easily monitored proxies for the less visible targets of evaluation. Organisations may also circumvent the need for ethical actions by carefully chosen displays of symbolism. For example, managers may even revise their core mission statement to give off a false appearance of conformity to societal ideals. This is precisely what Meyer and Rowan (1977) call "ceremonial adoption". That, in turn, may potentially be the case also when organisations adopt codes of ethics.

A further important idea institutional theory implies regarding business ethics has to do with business opportunities that an institution may offer. Thus, even though the demand for ethical behaviour does somewhat restrict the possibilities for action that organisations have, it certainly also represents an opportunity. For example, putting a label that reflects conformity to an institution on an activity most probably evokes trust easier than otherwise would be the case. For instance, the line between charity and pure advertising is often very blurred but the difference in desirability between these two is considered significant by the public opinion. Some companies have indeed used this opportunity. For instance, the fact that Nike has constructed basketball fields in the poor areas of Bronx and Harlem may perhaps resemble charity but in reality is far from it. The real aim of course, along with gaining legitimacy, is to promote the Nike brand among the most important user group for the brand image, and that way link up the swoosh with trendy street fashion. As a result of Nike's aggressive campaigns related to the "ethical action", people in the slums pay 150 dollars for a pair of shoes. (Klein 2000) However, for Nike, calling this activity "charity" is naturally a good business opportunity, as it indicates conformity to an institution and more easily awakes trust towards the brand.

One more idea that institutional theory may bring to the discussion about business ethics is the possibility of deinstitutionalisation. Generally speaking, it is very well recognised by researchers that business ethics has become widely discussed and seems to be increasing in popularity all the time. Several researchers even argue that business ethics is here to stay (e.g. DeGeorge 1990). The latter comment should not, however, be readily accepted if taking the institutional point of view. Institutional theory suggests that, even if institutions tend to be resistant to change, there exists always the possibility of deinstitutionalisation, because organisations always have agency, at least to some extent (Scott 1995). For instance, relying on the work of Kondra and Hinings (1998), deinstitutionalisation of business ethics would only require that an organisation deviating from institutionalised ethical requirements would perform better than other organisations of a field. This could present an incentive for others to deviate and in time change the institutionalised rules and norms. This is a possibility that business ethics literature has completely ignored. However, the institution of business ethics seems at present quite strong, and thus organisations do not easily deviate from the rules and norms, or at least do not succeed in doing so.

2.4 Related Literature: Drivers for CSR

One study related to the research problem of this thesis cannot be counted among either the literature of business ethics or that of institutional theory. However, since this study can be considered significant, it is presented next.

Rochlin and Boguslaw (2001, quoted in Googins 2001) conducted a study about motivating factors for corporate community involvement[8]. Their purpose was to disentangle the multiple drivers that influence corporate behaviour. These drivers are presented in Figure 1.

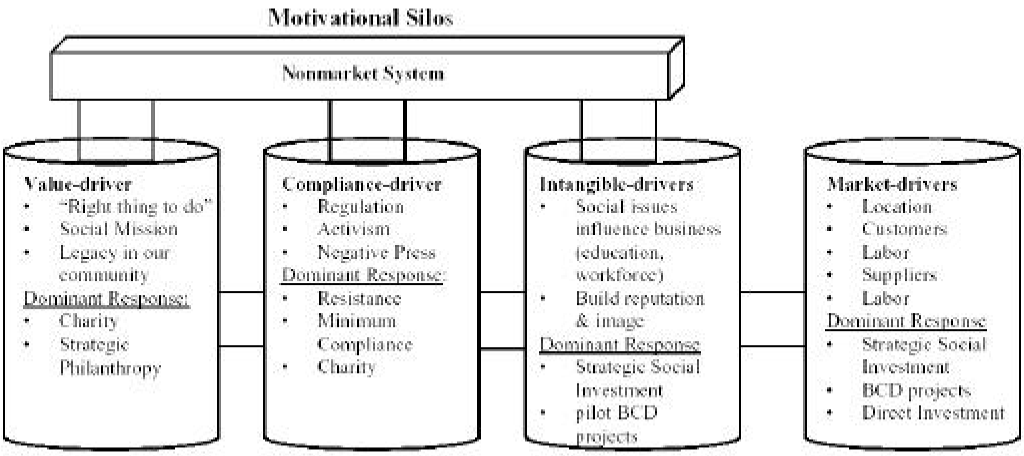

FIGURE 1: MOTIVATIONAL SILOS (Rochlin and Boguslaw 2001, quoted in Googins 2001)

The value-driver is based on personal morals, a desire to "give back" to society. The compliance-driver, in turn, results from compliance pressures created by government regulations and grassroots activists. The intangible factors include building reputation, brand, and relationships, as they affect business performance.

[8] Even though the term "community involvement" is used in the study, its characteristics seem to equate with the more often-used terms of "corporate responsibility" and "corporate social responsibility". That is why the drivers found in the research are automatically considered as drivers behind CR/CSR and, even more generally, behind codes of ethics.

Market drivers again lead to "typical" projects and investments, such as product launches, production, purchasing, or employee training. The distinction to “normal” business is that these projects occur with non-traditional stakeholders, and with a social, and well as market based goals. Examples of this kind of projects would be job training of low-income individuals, investing in "clean" production technologies, developing "socially responsible" consumer products, and creating employee stock ownership plans. (ibid.)

When comparing the different drivers to the ideas of business ethics and institutional theory, one can rather safely argue that the value-driver represents a moral motivation whereas all the others are more or less amoral in nature. The compliance-driver is very close to the ideas of institutional theory, implying that companies have to conform to external regulations and other expectations. The intangible-driver is also very close to that idea, since reputation and image result from perceived congruence with society’s values. The market-driver can be considered as an amoral motivation as well. However, one should note that according to Rochlin and Boguslaw (ibid.), the resulting projects also involve a *social* goal, which could in fact make them moral actions. The question is which one predominates, the market based goal or the goal to benefit the society[9]. All in all, given the term “market-driven”, the author presumes that it is the market based goal that dominates and an action inspired predominately by social goals is motivated by the value-driver.

[9] According to the definition used in this study, self-interest can be found behind moral actions, but when in conflict, self-interest must give way to moral considerations

2.5 Theoretical Framework

2.5.1 Three Theoretical Propositions

Based on all the above discussion, one can formulate different views on the reasons and aims behind the adoption of codes of ethics. Two views are particularly apparent, namely the view of business ethics literature (i.e. the traditional view of business ethics) and the view of institutional theory (i.e. the view of business ethics as an institution). They are included in the theoretical framework (Figure 2) that forms the basis for the following empirical research. However, to complement these two views, the author also wants to take into consideration the view of business that is rejected or at least challenged by both business ethicists and institutionalists—the traditional, "rational actor" view of business, which is still the dominant way to perceive the nature of business world. This perspective has been referred to several times both in the discussion about business ethics (Section 2.1) and in the discussion about institutional theory (Section 2.2). It has thus been implicitly considered as an alternative point of view, even though it is only here explicitly elaborated. Thus, these three views constitute the different propositions of the theoretical framework whose tenability will be sought to illuminate in the empirical part. The propositions are presented in Figure 2.

The View of Business Ethics Literature

According to the view of business ethics literature, companies should be regarded as moral actors whose actions always have moral implications. In compliance with this idea, the reasons behind the adoption of codes of ethics are considered moral, reflecting deeply internalised values. In other words, the aims behind codes

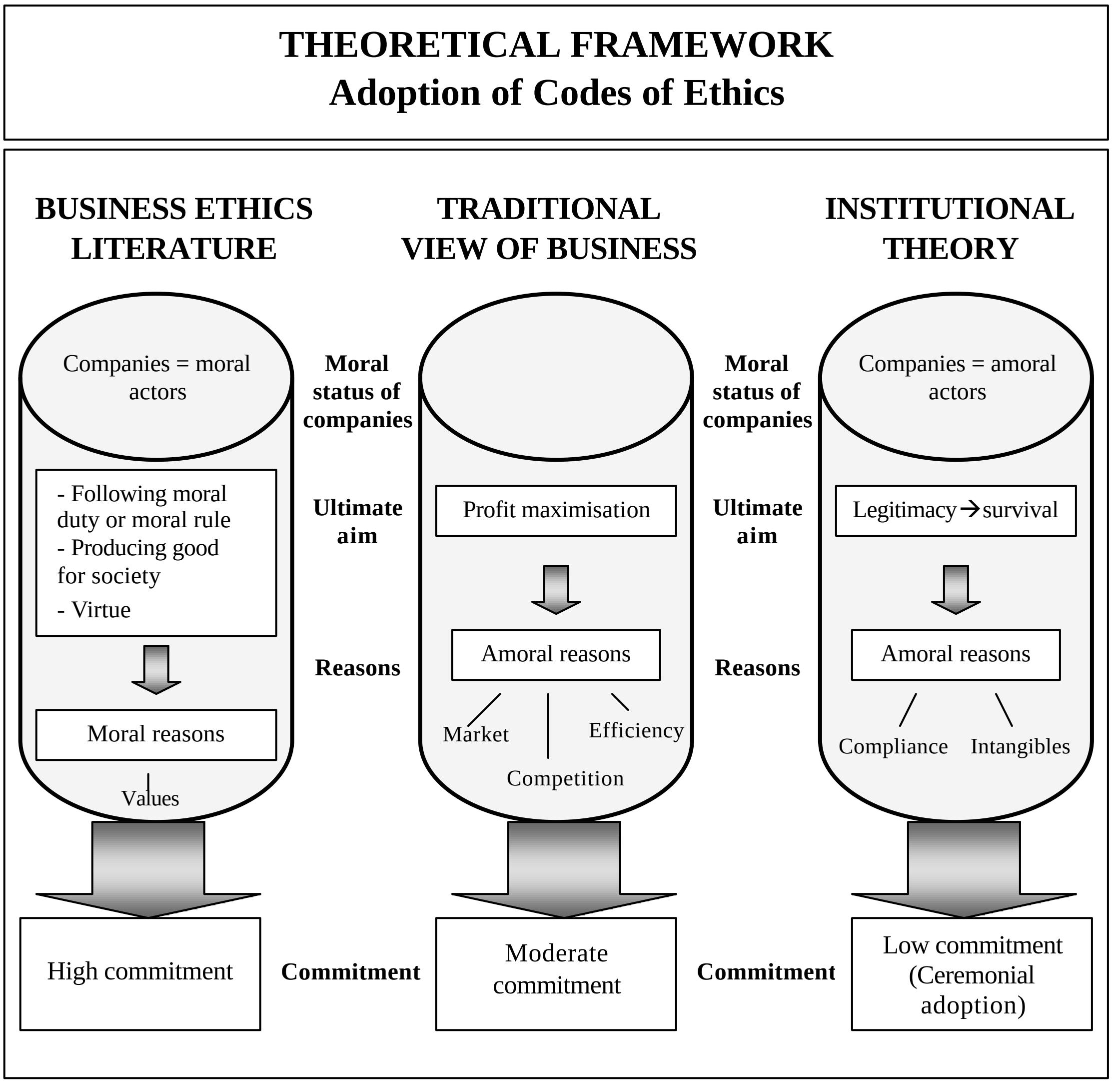

FIGURE 2: THEORETICAL FRAMEWORK

of ethics could be e.g. producing good for society, following moral rules, or acting according to moral duty. Self-interest can exist, but the main aim is always one of the above. According to the view, companies are also rational actors and, as such, are thus well aware of the reasons and aims behind the adoption of codes of ethics.

Resulting from all this, companies are assumed to be highly committed to their codes of ethics, carefully following them in practice. The assumption is made based on the known role of values in determining behaviour (see e.g. Akaah and Lund 1994, Copeland 2004). The author believes it is reasonable to assume that having one's innermost values produce an intention for behaviour will result in commitment to put that behaviour into practice, regardless of the amount of recognition or benefits this brings to the company. In brief, the view of business ethics literature sees codes of ethics as an indicator of companies' real commitment to ethical behaviour, i.e. as a commitment that holds through thick and thin.

It must be specified, that the view of business ethics literature is based on both teleological and Kantian theories, but rejects the very strict version of Kantianism.
This is simply due to the fact that the strict version, as discussed in Section 2.1.5, is relatively incompatible with business and would practically result in considering all reasons and aims immoral. However, the ideas of moral duty and following ethical principles are an integral part of the possible aims related to codes of ethics and in this way Kantianism is also strongly present in the above view. The assumption behind the business ethics view is, thus, that self-interest and morality are not mutually exclusive things. However, at some point, being moral often conflicts with making profits, and then the decision has to be in favour of morality.

The Traditional View of Business

Contrary to the view of business ethics literature, the traditional view of business considers companies as amoral actors. The role of a company is to produce goods and services that consumers need and want and to make a profit in the process (Carroll 1991:41). Consequently, the ultimate aim behind a code of ethics is maximising profit for the company's owners or shareholders. This aim leads to reasons like Rochlin and Boguslaw's (2001, quoted in Googins 2001) market-driver, which implies doing things simply because they are good for business. The traditional view of business also equates the view of organisations as rational actors, an idea rejected by institutionalists[10]. According to this view, the key to success is productive efficiency. Thus, organisations' main reason behind any activity, including adopting a code of ethics, would ideally be efficiency of operations. In addition to these, maintaining a strong competitive position is included in the reasons. Carroll (1991:40) lists it as one of the major issues for the economic performance of companies, which is after all the primary goal per this view.

One can argue that the traditional view of business assumes a moderate commitment to codes of ethics. This is because of two things. First, to get any efficiency benefits, companies actually have to put their codes of ethics into practice. For example, employees need to be treated well in practice before their well-being results in reduced sick leaves. The same goes for taking advantage of market opportunities. To be able to sell "ethically produced" products, the company must, generally speaking, produce them ethically in practice. However, even if companies were committed to ethical action when it makes operations more efficient, they are only committed *as long as* this is true. If efficiency is better achieved through other types of behaviour, companies may easily abandon their ethical behaviour. Supposedly the market driver disappears as well if e.g. consumers stop valuing "ethically produced" products. In brief, even though mere ceremonial adoption of codes of ethics would be impossible here, in the absence of true moral values the traditional view of business suggests only a short-term commitment to them. This type of commitment, being between the high commitment proposed by business ethicists and the low (even ceremonial)

[10] See Section 2.2.2, p.40.

commitment proposed by institutionalists, would represent a *moderate* commitment.

The View of Institutional Theory

Like the traditional view of business, the institutional view begins by considering companies as amoral actors as well. However, contrary to the emphasis on rationality and efficiency given by the former, institutional theory sees companies as entities continuously conforming to environmental pressures (rules, norms and taken-for-granted assumptions), in order to avoid punishment (i.e. being considered illegitimate). The ultimate aim behind codes of ethics is thus to be considered legitimate, that is, a "good corporate citizen" and, in this way, survive in competition. The reasons behind the adoption of codes of ethics are then amoral, such as following laws, rules, norms, and other external constraints, conforming to external expectations and ultimately, as mentioned above, avoiding punishment. These reasons, in turn, reflect not only compliance with regulations and expectations, but also congruence with society's values. The compliance-driver and the intangible-driver of Rochlin and Boguslaw (2001, quoted in Googins 2001) are thus considered to represent quite well the reasons proposed by the institutional view.

The institutional view conceives organisations as irrational entities that are not often aware of the real reasons behind their actions. Instead, they act upon myths of rationality. In the case of codes of ethics a myth could be e.g. the slogan "good ethics is good business". Organisations might think they adopt codes of ethics because that is the rational thing to do even if in reality they only conform to external expectations in pursuit of legitimacy. In other words, the reasons for using a code of ethics do not necessarily reflect the innermost values and beliefs of their developers. Because of this, they are more “external” than the genuinely moral reasons assumed by business ethics theorists. From all this it follows that organisations are not necessarily committed to their codes of ethics but instead may adopt them ceremonially, i.e. just to manifest their legitimacy to the external world. Organisations might even communicate about their ethical engagements without having real intentions to put them into practice.

2.5.2 Empirical Studies Related to the Theoretical Framework

Apart from the “traditional” literature related to business ethics and institutional theory that obviously support the business ethics view and the institutional view respectively, one can also find academic research related to the theoretical framework that could be considered more “outside” the two domains. This literature, which mostly consists of empirical research, offers some interesting views concerning the theoretical framework of this study. These views will be discussed next. Moreover, as part of business ethics literature has interesting points regarding the ideas of institutional theory, some of this work will also be handled below.

Studies Supporting the Amorality of Reasons

One can rather safely argue that the two views assuming amorality of reasons (i.e. the institutional view on business ethics and the traditional view of business) are very well supported in academic research. This is the case especially when it comes to empirical research done about the adoption of codes of ethics.

Hedberg and Malmborg (2003) interviewed all Swedish companies that use the Global Reporting Initiative (GRI) guidelines in their CSR reporting and found out that companies produce responsibility reports mainly to seek organisational legitimacy, and that the main reason for the use of the GRI guidelines is the expectation of increasing credibility of the CSR activity. If this is so, according to the research, codes of ethics are used to manage public impressions of the organisation's operations and consequently establish or maintain organisational legitimacy. The researchers also found out that companies interact with each other and watch each other in order not to do anything that is considered too much. This creates isomorphic patterns for the design of environmental and sustainability reports. Moreover, consistently with the aim of gaining legitimacy, the researchers noticed that companies publish their reports to provide information mainly showing how responsible and well organised they are. Practicing sustainable development is, in fact, considered a way to look after the company brand. This was found especially apparent with companies like Volvo and VCC who produce transport equipment run by fossil fuels, which they continuously need to legitimise. Other motivations that the researchers (ibid.) found for the use of responsibility reports were e.g. that collecting the data needed for the report gave a useful view of the company for the management. This reason may be considered in line with the traditional view of business. All told, most of these reasons and aims clearly support the institutional view of the theoretical framework of this study, whereas moral considerations were absolutely conspicuous by their absence.

Another research that strongly supports the amorality of reasons is that of Carasco and Singh (2003). They studied the content and focus of codes of ethics of the world's largest transnational companies. The researchers argue that underlying the growing importance of codes of ethics there are at least five important business reasons:

1. A code of ethics is thought to enhance corporate reputation and brand image. For example, according to a study realised by the Institute of

Business Ethics in 1998 (BSR 2001[11], quoted in Carasco and Singh 2003) 75% of British companies identify supporting the company's reputation as the motivation for developing a code of ethics. Thus, according to the researchers, a code of ethics is essentially about sending the right message about good business practices, both internally and externally.

2. A code of ethics is a good way to signal to shareholders, activists and the media that a company is committed to ethical behaviour, so that in times of crisis, unethical behaviour is seen as an exception, not a rule.
3. A code of ethics helps to create a cohesive corporate culture and provides a mechanism for a corporation to operationalise its values. In other words, it gives a sense of community among employees.
4. A code of ethics helps to avoid fines, sanctions and litigation.
5. Sound business practices will enhance development prospects in emerging economies by establishing universal standards that transcend differences in laws and cultures.

Undoubtedly, all these reasons are amoral in nature and most of them clearly imply that codes of ethics are regarded as a tool in seeking legitimacy in the eyes of society. However, two of the reasons seem to be more congruent with the traditional view of business than with institutional theory; namely creating coherent corporate culture and having sound business practices, which necessarily require implementing the ethical engagements in practice.

Besides the above reasons, other potential benefits of codes of ethics are also seen. Generally, these include at least increased customer loyalty, enhanced company reputation, and strengthened employee commitment and productivity (e.g. McAlister and Ferrell 2002). In fact, it is increasingly recognised that corporate social responsibility initiatives or corporate philanthropy have become

[11] Business for Social Responsibility (BSR): Issue Brief "Ethics Codes/Values", available at http://www.bsr.org/CSRResources/IssueBriefsList.cfm?area=all.

strategic issues—a tool among others helping an organisation to improve its overall performance. McAlister and Ferrell (2002) call this new model of philanthropy “strategic philanthropy” and consider it as an investment, which leads to expectations for some type of return or value. All this implies that the reasons behind corporate responsibility are hardly moral in nature.

The research of Guillén et al. (2002) concerning the differences of European and American approaches to business ethics can also be considered congruent with the institutional view. The researchers studied reasons for adopting codes of ethics, and found out that the most popular one both in Europe and in the US seems to be “spreading the company’s values or philosophy”. This reason is quite an ambiguous one as it could basically be interpreted as supporting any of the three theoretical propositions. If a company wants to spread its values mainly to the external world, it is probably about gaining legitimacy. If values are spread internally in order to create a coherent corporate culture, it is most likely about increasing the efficiency of operations. However, if the reason refers to making employees act ethically, it could even be a moral reason.

The researchers (ibid.) also found differences in the reasons for using codes of ethics between European and American companies. For example, reasons such as “reputation and competitive advantage” got a higher score among American companies whereas European companies got a higher score for ideals such as “to build trust within the firm” and “to present public commitment”. One could argue that the more American reasons reflect seeking legitimacy whereas of the European reasons, only “presenting public commitment” can be related to institutional theory. “Building trust within the firm” can be seen to support the traditional view of business, as building trust is probably mainly important for the efficient functioning of the organisation. Furthermore, the main assumption of the institutional view is that companies adopt codes of ethics in order to conform to *external* pressures and to gain legitimacy in the eyes of the *external* society. Building trust *within* the firm does not directly serve this aim.

Regarding the perceived impact of ethics statements that the research (ibid.) uncovers, one would be inclined to interpret the results in favour of the traditional view of business. The most often-mentioned impact was "building the corporate culture", an obvious amoral issue that increases the efficient functioning of an organisation. The following impacts for both USA and Europe (other than Spain) were "shaping policies and practices" and "avoiding misconduct". These two impacts are rather ambiguous: they can either refer to amoral or moral reasons. Policies and practices can be shaped in terms of their efficiency, their institutional fit, or their morality and responsibility. In the same way, misconduct may be avoided to protect the company's image and reputation (i.e. legitimacy) or to follow ethical principles. Concerning the next perceived impact (second most important for Spain), however, ambiguity is not an issue: "improving the corporate image" clearly supports the view of institutional theory.

The research (ibid.) also shows well the current popularity of codes of ethics. In all business categories studied, the majority of companies had at least one written ethics document. For some industries the proportion was already very high: 86% of companies in consumer packaged goods category had a written code of ethics. Furthermore, the research supports the common assumption that business ethics is still far more institutionalised in the US than in most European countries. For example, 100% of the studied companies with HQ in the US had written ethics statements whereas for companies with HQ in Spain the percentage was only 63%.

Further research that could be interpreted as showing differences in the institutionalisation of business ethics is presented by Puttonen (2002). The research (executed by the Institute of Fiscal and Monetary Policy) included a questionnaire about stakeholders for corporate managers in five countries (Japan, USA, UK, Germany and France). The responses for the question "for whom do companies exist?" clearly show that the responsibilities of companies are seen very differently in various parts of the world. The results can be seen in Table 2.

	All stakeholders	Shareholders
Japan	97.1%	2.9%
USA	24.4%	75.6%
UK	29.5%	70.5%
Germany	82.7%	17.3%
France	78.0%	22.0%

TABLE 2: FOR WHOM DO COMPANIES EXIST? (Puttonen 2002)

The interesting point in these results is the striking difference between the Anglo-Saxon countries (USA and UK) and the others. How can it be that precisely the countries that are the incontestable pioneers in business ethics, both on the practical level and in the academic world, clearly support the "stockholder view" and do not accept responsibility for other stakeholders? These countries are still the ones adopting codes of ethics to the greatest degree. The answer to this evident contradiction can be found from the institutional theory. Taking the institutional view, the results clearly show that business ethics is far more institutionalised in the USA and in the UK than in Japan or in the continental Europe. The institutionalisation of business ethics leads precisely to a situation where codes of ethics are sometimes adopted ceremonially, to show conformity to institutionalised rules and norms. In other words, the fact that a code of ethics exists does not mean that the company adopting it would have *internalised* the idea of social responsibility, i.e. the "stakeholder view", nor does it then mean that the company would actually have the intention to carry out the (facilely) assumed ethical responsibilities. Instead, where business ethics is strongly institutionalised, companies adopt codes of ethics mainly to gain legitimacy, i.e. to survive in the competition, which ultimately means making profits for shareholders. All in all, the results presented by Puttonen (ibid.), together with the well-known popularity of business ethics in the USA and the UK, support well the institutional view of the theoretical framework.

In addition to recent empirical research on the subject, some (more or less) "traditional" business ethics researchers seem to acknowledge business ethics being an institution. If not immediately apparent, at least this could be read between the lines. For example, using the words of Verstraeten (2000)

> *"business organizations are not merely private organizations, but social institutions which are part of the larger society. They get their legitimacy by way of contributing to the welfare and well-being of the communities on which they have an influence"* (Verstraeten 2000:7)

The business ethicist's words are definitely more congruent with the institutional view than with the view of business ethics literature, especially when taking into account his following argument: *"Ethical behaviour is more rational than unethical behaviour, among other reasons because of the influence of positive and negative sanctions"* (Verstraeten 2002:5). This argument clearly refers to an amoral motivation[12] behind ethical behaviour, and also to the idea of legitimacy, which is the "positive sanction" of ethical behaviour.

In addition to Verstraeten (ibid.), Munro (1997), has also discussed the use of codes of ethics, recognising that codes of ethics are, initially, used as part of a public relations exercise, i.e. for the reason "we care because you do". In the same way, Johnson et al. (1996) point out that codes of ethics play essentially a role in presenting a particular public image of the organisation to stakeholders. These arguments naturally imply that companies mainly try to conform to external

[12] Negative sanctions (i.e. external constraints) are discussed in Section 2.1.5, p.31.

pressures, which is a basic assumption of the institutional view. However, Johnson et al. (ibid.) also argue that codes of ethics can be used to control employee behaviour, which could be interpreted as a support for the traditional view of business. After all, coordination and control are ways to increase efficiency and consequently maximise profits, which is the very basic idea of the traditional view.

The institutional view is clearly present in the ideas of Lozano (2000), who discusses the relations between companies and society and the role of ethical responsibilities in that setting. In brief, the researcher argues that CSR is not a supplementary activity that companies can choose to do or not to do, but that to survive, companies have no other alternative than to integrate ethical responsibilities to their actions. This, according to the researcher, is because instead of just producing "neutral" products and services, companies also produce meanings, i.e. social responsibility. Consequently, society's recognition of corporate contributions involves simultaneously acknowledging both the benefits provided through products and services and the legitimacy and credibility warranted by company activity. Even though a business ethicist in principle, Lozano's (ibid.) view is obviously very far from the business ethics view of the theoretical framework of this study and instead matches well with the institutional view.

The institutional view also seems to be supported by the opinions of company managers presented in the Campaign Report on European CSR Excellence 2002-2003[13]. Managers quoted in the report acknowledge that in some cases consumer pressure has helped to drive social responsibility initiatives. In other cases, consumer ignorance limits the demand for more sustainable products and services, especially if they cost more. In either case, the implication is that the external

[13] http://www.csrcampaign.org/publications/default.aspx

environment determines whether the company adopts social responsibility initiatives. The same idea is apparent in the complaints of the managers about the reluctance of investors and their “failure to acknowledge the benefits of socially responsible company”, which hinder socially responsible action. In other words, a manager may have a moral motivation behind an action but if the environment is not all for it, he/she is assumed to make the decision in favour of stockholders, not in favour of the moral duty or moral rule. Thus, he/she is assumed to conform to the institutional environment.

Studies Supporting the Morality of Reasons

When it comes to the view of business ethics literature of the theoretical framework, there seems to be much less supporting research available than is the case with the view of institutional theory and the traditional view of business. However, even if most research would generally stress ideas that are congruent with the two “amoral” views discussed above, it sometimes also contains arguments that could be interpreted as a support for the view of business ethics literature.

An example of an ambiguous study discussed above is the study of Guillén et al. (2002). Even if their arguments mostly support the institutional view, the researchers also found out things that match with the view of business ethics researchers. For example, none of the respondents included in their study chose the statement “ethics has nothing to do with business”, which indicates that the idea of the amorality of business does not seem to be accepted. However, the statement being an extreme one, one could argue that probably even the most enthusiastic institutionalists or business ethics critics would not choose it, as they do generally acknowledge that the basic ethical principles (e.g. being honest, playing fair) do apply to business organisations.

Even so, the researchers (ibid.) also found out other, more convincing arguments supporting the view of business ethicists. For example, they noticed that formal codes usually do not stand in isolation but, rather, are associated with a greater attention to ethical issues than is found in companies without codes. This naturally implies that codes of ethics would not be usually used ceremonially, i.e. “just for the show” as the view of institutional theory suggests. Instead, according to the research and consistently with the view of business ethics literature, codes of ethics are possibly adopted with a genuine intention to implement them. One must remember though that an intention to implement can also be related to the traditional view of business.

Guillén et al. (ibid.) further noticed that over a half of the firms (58%) included in the study communicate their ethics statements only to employees. Thus, codes of ethics are most often *not* used as a public statement, which means that they cannot be adopted mainly to conform to external institutional pressures, as in gaining legitimacy. This finding is contrary to the institutional view and, thus, supports the business ethics view. However, it should be noted that the American companies in the study tend to make their codes public more often (50% of the companies).

Another research partly supporting the view of business ethics literature was done by Joyner and Payne (2002). In fact, the researchers argue that both the institutional view and the business ethics view would be valid, depending on the company and the situation, as businesses engaging in ethical business practices do it either out of the desire to do the right thing (the “ethical” motivation) or in order to convince the stakeholder that the firm is doing the right thing (the “machiavellian” motivation).

3 RESEARCH METHODOLOGY

3.1 Research Approach and Research Method

As the general purpose of this study is to gain a better *understanding* of the phenomenon of adopting codes of ethics, the suitable research approach is quite naturally qualitative research. Qualitative research seems to be the right approach also because the phenomenon is complex and context-sensitive, and consequently cannot be meaningfully operationalised in quantitative terms (Bonoma 1985). Due to the qualitative approach of this study, conclusions are derived through analytical reasoning.

The research method of this study is multiple-case study. Yin (2003:13) defines a case study as *"an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident"*. He also argues that case studies are especially suitable in situations which involve "how" or "why" questions and in which the researcher has little control over events (ibid: 7). This study matches well all the above characteristics[14]. More specifically, Yin argues that case studies are especially used in situations *"where a previously developed theory is used as a template with which to compare the empirical results of the case study"* (ibid: 32-33). That is precisely what this thesis aims to do.

Different researchers have categorised case studies in a different way. Using the terms of Yin (1981, 2003), this study would be an *explanatory* case study, whereas Merriam (1998, quoted in Aita and McIlvain 1999) would call it a

[14] Essentially, the research question of this study is about finding out *why* companies adopt codes of ethics.

heuristic case study and Stake (1994) a *collective* case study. In other words, this study seeks to explain the phenomenon of adopting codes of ethics, to shed light on why codes of ethics are adopted and what the reasons and aims behind them imply in practice. The case companies are chosen because they are believed to provide insight into the phenomenon at hand and, thus, the goal is not to go deep into any particular case.

Using the words of Yin (1981:61),

> *"an explanatory case study consists of a) an accurate rendition of the facts of the case, b) some consideration of alternative explanations of these facts, and c) a conclusion based on the single explanation that appears most congruent with the facts"*.

In this study, the facts of the phenomenon of adopting codes of ethics (e.g. its increasing popularity) are disclosed in the introduction chapter and some are scattered in the literature review. Subsequently, based on the two different disciplines discussed, i.e. business ethics and institutional theory, three alternative explanations for the phenomenon were outlined. Finally, based on the next chapter, i.e. the empirical part of this study, one should be able to determine which explanation is the most congruent with the real world situation.

3.2 Study Design

The case study design is *"the logical sequence that connects the empirical data to a study's initial research questions and, ultimately, to its conclusions"* (Yin 2003: 20). The elements of the design are the following (ibid: 21):

1. Study questions
2. Study propositions

3. Unit of analysis
4. Linking data to the propositions
5. Criteria for interpreting the findings

The study question in this research is: What are the main reasons and aims that companies have for adopting codes of ethics? More specifically, it will be examined whether the reasons and aims, if stated, support the view of business ethics literature, the traditional view of business or/and the view of institutional theory. The idea behind wanting to examine reasons and aims behind codes of ethics is that they are assumed to determine how committed companies are to their codes, i.e. how determined and motivated they are to putting them in practice.

The study propositions are the three models forming the theoretical framework of this research[15], i.e. the "business ethics literature view", the "traditional business view" and the "institutional theory view" on the reasons and aims behind codes of ethics. Their tenability will be illuminated with the empirical findings.

The unit of analysis, the "case", is the codes of ethics of the case companies. However, the information found in the codes is, in come cases, complemented by interviews with company representatives responsible for adopting or developing the codes. It should be clarified that the ethical performance of the companies or the actual content of the codes is not analysed. With the research question in mind, the only relevant aspect in the codes is the reasons and aims behind them. The point is then to examine whether or not reasons and/or aims are mentioned in the public reports and what they are like. Regarding the time boundaries of the case, the codes of ethics used in this study are from years 2002 and 2003. This is because of the objective to get a balanced view of the reasons and aims—both in the sense of having not only environmental but also social issues covered and in

[15] See Section 2.5.

the sense of having all the companies presented as equally as possible. During 2002 and 2003, most companies just started to produce public statements about their social and environmental responsibilities. Moreover, before 2002, most reports only covered environmental issues, and cannot thus be considered as "complete" codes of ethics.

After collecting and categorising the empirical data, the findings will be linked to the propositions of the study, i.e. to the theoretical framework. In other words, the theoretical framework is used as a template with which to compare the empirical results. In this, replication logic is used. According to Yin (2003:33), the empirical results can be considered more potent if two or more cases support the same theoretical proposition (replication), and even more significant if they moreover do not support a *rival* theory. The procedure used in the analysis is further explained in Section 3.4.

3.3 Selection of Case Companies

The case companies in this study are the ten biggest companies in Finland, measured by their turnover in 2002. The companies, their industry, turnover, staffing, and degree of internationalisation are listed in Appendix 2. There are several reasons behind selecting these companies.

The country of origin of the companies was restricted to Finland mostly due to the feasibility of the study. Restricting the study to only one country naturally limits the possibilities to generalise the results. However, as the aim of this study is to *understand* the phenomenon, not to make wide generalisations or to compare countries, this limitation is not that severe. Furthermore, according to institutional theory, institutions may vary even more between industries than between countries. This also reduces the significance of the above limitation and at the same time brings up the good possibility to learn from the selected case companies that represent several different industries.

Despite some limitations, choosing Finland as the base country has several advantages as well. According to the World Economic Forum[16], Finland is the number one country in ethical behaviour of companies. A CSR survey of the Copenhagen Centre[17] (from 2003) also placed Finland as the best country for corporate responsibility. Generally speaking, the current trend of adoption of codes of ethics is often considered as an Anglo-Saxon and North European phenomenon. If the US is regarded as the reference country in business ethics, Finland could perhaps be described, also in this respect, as "the most American country in Europe". Codes of ethics are indeed very popular in Finland: over 80% of listed companies had statements on their environmental and/or social responsibilities in 2003[18]. Also public debate about the subject is intense. All things considered, one could assume that Finland is a fruitful country for searching reasons and aims for the adoption of codes of ethics.

The decision to choose the ten biggest companies in Finland has several justifications as well. First, as the aim of this study is to shed light on the reasons and aims behind codes of ethics, the basic requirement is that each case company *has* a code of ethics. Codes of ethics, again, are found to be much more common in big companies than in small ones (e.g. Langlois and Schlegelmilch 1990:521). This is at least because the bigger the company, the more it has public presence and importance for society and the more it probably faces external pressure for adopting a code. Moreover, smaller companies can often be managed without formal statements and even if a code would be needed or desired, they tend to have fewer resources for adopting one. Second, in case studies, the researcher

[16] http://www.weforum.org/pdf/Gcr/GCR_2003_2004/Finland.pdf
[17] http://www.mallenbaker.net
[18] http://www.fortum.com. Referred 16.12.2003.

typically chooses cases that seem to offer most opportunity to learn (Stake 1994). The biggest companies in Finland are all strongly involved in international business, which supposedly increases the breadth of the codes and the range of possible reasons and aims. This is due to the variety of cultures the companies operate in and also due to the fact that multinational companies tend to face levels of corporate responsibility higher than purely national companies (Zyglidopoulos 2002). Third, the ten biggest companies represent rather well different industries in Finland, which also increases the opportunity to learn from them. Fourth, the number of cases had to be limited for the sake of the feasibility of the study. Even so, the author feels that these ten companies can give a rather good picture of the reasons and aims for adopting codes of ethics. The case companies are presented in Section 4.1. More detailed information about them can also be found in Appendix 2.

3.4 Data Collection and Analysis

Case studies typically combine sources of evidence such as various written documents, public or private archives, interviews, questionnaires, and direct observation. The evidence may be qualitative (e.g. words) or quantitative (e.g. numbers), or both. (e.g. Eisenhardt 1989, Yin 2003, Leonard-Barton 1990) Taken into account the nature of this study, the most relevant source is obviously written documents, i.e. the actual codes of ethics. As the term “code of ethics” is understood broadly[19], it may, in practice, be a part of an annual report, a part of a special social or environmental responsibility report (either printed or on the Internet), or some other report or value statement. These written documents represent data that is thoughtful, in that participants have given much attention to developing them (Creswell 2003). One could, thus, assume to find at least some

[19] See the definition of the term in Appendix 1 or in Section 2.1.4.

indication of the reasons and aims in these documents. On the other hand, if the reasons and aims behind the adoption of the codes are less than flattering for the company, they may be purposefully left out.

To compensate for the above flaw, the intention was to interview a representative from each case company in order to complement any lacking information. All companies were contacted via e-mail for interviews, either in December 2003 or in July 2004. Some companies were contacted both times. Finally, five companies agreed, one refused, three did not reply, and one company was favourable to the idea but finding the suitable time turned out to be impossible. Fortunately, the interviewed companies represent well different industries, which, despite their limited number, allows good possibilities to learn from them. The respondents were all social responsibility managers or, in some other way, in charge of or closely involved in adopting or developing the company's code of ethics. Four interviews were conducted in Finnish, one in English. They were recorded on tape and then transcribed for translation and analysis.

The type of interview used was individual, semi-structured interview. These kinds of interviews are guided, focused, and open-ended communications events. The questions, probes, and prompts are written in the form of a flexible interview guide. (Crabtree and Miller 1999) The interview guides of this study can be found in Appendix 3 (English) and Appendix 4 (Finnish). Even if a standardised list of questions was used as the basis for each interview, the researcher also sometimes included questions particularly tailored for the company in question, in order to specify or complement the company's code of ethics. The questions were open-ended, which allows the researcher to get both factual information and respondents' own opinions and propositions of their own insights (Yin 2003:90). The interviews were focused, so that each event took maximum one hour.

The reliability of the interviews is not very high. Because the subject is relatively sensitive, the respondents are probably inclined to give “politically correct”, i.e. socially acceptable answers that support the interests of their employer (e.g. Hirsjärvi et al. 1997, Eskola and Suoranta 1998, both quoted in Roto 2003:108-109). This general tendency is even more accentuated as the interviews were all conducted in the case companies’ premises. Moreover, even the basic assumption of institutional theory is that companies, i.e. the people working in them, are not usually aware of the real reasons behind conforming to institutional requirements. All things considered, one should probably expect to get a slightly embellished view of the reasons and aims for using codes of ethics. Nevertheless, even if the value added of the interviews was not expected to be substantial, they were conducted in the small hope that something important might be revealed. After all, as the written documents are thoughtful in nature, they are even more politically correct and calculated than the answers one gets from interviews. In addition, even if the interviews had not given straight and unembellished answers to the main questions, they did help to adduce many important points and, thus, to increase the general understanding of the phenomenon.

The analytic strategy of this study is to test rival explanations (Yin 2003:112). This was a logical choice of strategy as the theoretical framework leading to the case study outlined three competing explanations for the reasons and aims of using a code of ethics.

The analysis itself consists of several phases. When analysing the written documents and transcribed interviews, all reasons and aims given for the adoption of a code of ethics were first identified, company-by-company. Based on the identified reasons, one could cluster similar topics together and formulate different categories of reasons. For replication purposes, the presence of the categories in every code was mapped. However, the cases (i.e. the codes of ethics) were not compared to the theoretical framework separately (like in most multiple-case studies), because the purpose was not to portray any single company and its code of ethics; they serve only as the evidentiary base for the study. Consequently, the *cross-case* categories were then compared to the propositions of the theoretical framework, evaluating whether they matched or whether the framework should be modified. After the comparison, its implications were discussed. This discussion, following the general ideas of qualitative research, is based on the interpretations of the researcher and focuses on judging the tenability of the two propositions of the framework.

3.5 Reliability and Validity

The reliability of this study is relatively good. Even if the empirical data used might give a slightly embellished view of the companies' ethical reasoning, a replication of this study is very likely to get the same kind of view and thus draw the same kind of conclusions. Nevertheless, it should be noted that just like in all qualitative research, the researcher's opinions and worldview play a role, especially in interpreting the findings. Other studies might thus make somewhat different emphases depending on the issues the researcher finds important. Nonetheless, the general conclusions about the nature of the phenomenon are likely to be similar.

A single case study is subject to limits in generalisability and potential biases, such as misjudging the representativeness of a single event or exaggerating the importance of a data because of its ready availability. Multiple cases increase external validity and help prevent observer biases. (Leonard-Barton 1990) However, according to Leonard-Barton (ibid: 257), in case studies the danger is not so much that one may surrender to ones own biases as that one may unconsciously accept those of the informant. The researcher may start to see the phenomenon through the lenses of the chosen interviewees, and he/she may take the story as told, without questioning interpretations. Thus, the researcher has to recognise this risk and pay attention to being a critical audience, aware of everyone's vulnerability to subjective perceptions (Sears and Freedman 1974, quoted in Leonard-Barton 1990:257).

The external validity of a case study, i.e. the possibility to generalise the findings beyond the immediate case, is usually considered a problem. It is seen to suffer simply because of the inability of any single research method simultaneously to minimise threats to both reliability and validity (Campbell and Stanley 1963, quoted in Bonoma 1985:200). A practical "feasibility constraint" forces the researcher to trade some of the coin of causation (reliability of results) for the moderate generalisability of findings he or she obtains because of the very choice of research problem and method. However, one should note that case studies are not even *supposed* to lead to traditional "statistical generalisation" but to "analytic generalisation" (Yin 2003:32). In other words, the findings are not generalised to a population of other cases, but to a broader theory, using replication logic. In this sense, the external validity of this study is good.

In the following empirical part of this study, Chapter 4 introduces the case companies and presents the findings from the case companies' codes of ethics and the interviews conducted. In Chapter 5, these findings are analysed in relation to the theoretical framework, and the resulting implications are discussed.

4 EMPIRICAL FINDINGS

4.1 The Companies

The case companies of this thesis consist of the ten biggest companies in Finland: Nokia, Stora Enso, Fortum, UPM-Kymmene, Metsäliitto, Nordea Bank Finland, Kesko, Outokumpu, Kone, and Metso. The companies represent rather well different industries: forest (three), metal (three), electronics (one), energy (one), financial services (one) and retail (one). The companies are presented in more detail below. The information presented here is obtained from the companies' Internet sites (July 2004) and annual reports. The companies and their main figures are also listed in Appendix 2.

Nokia is the world leader in mobile communications producing such products as: mobile phones, solutions for imaging, games, media, mobile network operators, and businesses. In 2003, Nokia's net sales totalled EUR 29.5 billion. The company has 16 manufacturing facilities in 9 countries and R&D centres in 11 countries. At the end of 2003, Nokia employed approximately 51,000 people. Nokia is a broadly held company with listings on the Helsinki, Stockholm, Paris, Frankfurt, and New York stock exchanges.

Today, Nokia comprises four business groups: Mobile Phones, Multimedia, Networks, and Enterprise Solutions.

- *Mobile Phones* develops mobile phones for all major standards and customer segments in over 130 countries.
- *Multimedia* brings mobile multimedia to consumers in the form of advanced mobile devices and applications. Its products have features and

functionality such as imaging, games, music, media, and a range of other content.

- *Networks* is a leading provider of network infrastructure, service delivery platforms, and related services to mobile operators and service providers.
- Through the *Enterprise Solutions* business group, Nokia seeks to leverage its knowledge of the two crucial elements in mobilising enterprises: high levels of security and reliability, and the ability to produce state-of-the-art, pocketable, powerful and user-friendly devices.

Stora Enso is an integrated paper, packaging and forest products company producing publication and fine papers, packaging boards and wood products, areas in which the Group is a global market leader. Stora Enso's sales totalled EUR 12.2 billion in 2003. The Group has some 44,000 employees in more than 40 countries in five continents. Stora Enso's shares are listed in Helsinki, Stockholm, and New York. Stora Enso's customers are large and small publishers, printing houses and merchants, as well as the packaging, joinery and construction industries worldwide. It serves these customers through its own global sales and marketing network. The main markets are Europe, North America, and Asia, where the Group has also production facilities.

Nordea Bank Finland Plc is part of the Nordea Group, the leading financial services group in the Nordic and Baltic Sea region. It engages in banking in Finland, developing and marketing financing products and services to personal customers, companies, corporations, and the public sector. The bank has a leading position on the Finnish money and capital markets, and it has approximately 3.3 million customers. Nordea's net bank is the best-known e-banking service in Finland with some 1.2 million users. Nordea Bank Finland and its subsidiaries have about 9,000 employees. A significant part of Nordea Bank Finland's retail banking operations is a large branch network. Personal and corporate customers are served locally at roughly 400 places of business. The Nordea share is listed in Helsinki, Stockholm, and Copenhagen.

Though it is specifically Nordea Bank *Finland* that is included as a case company, it should be noted that the code of ethics examined is group-wide, and thus encompasses not only Nordea Finland, but also Nordea Banks in other Nordic countries and in Poland.

Fortum is a leading energy company in the Nordic countries and the other parts of the Baltic Rim. Fortum's activities cover the generation, distribution, and sale of electricity and heat, the production, refining, and marketing of oil, the operation and maintenance of power plants as well as energy-related services. The main products are electricity, heat and steam, traffic fuels, and heating oils. For power generation, the company uses hydro, wind, and nuclear power, coal, natural gas, peat, biomass, and oil as our energy sources. In 2003, Fortum's net sales totalled EUR 11.4 billion and operating profit stood at EUR 1.4 billion. The average number of employees was 13,300. Fortum's shares are quoted on the Helsinki Exchanges.

UPM-Kymmene is one of the world's leading forest products companies. The company's businesses focus on magazine papers, newsprint, fine and specialty papers, converting materials, and wood products. The company has production in 16 countries and an extensive sales network comprising over 170 sales and distribution companies. UPM's turnover in 2003 was close to EUR 10 billion and the group employs approximately 35,000 people. UPM shares are quoted on the Helsinki and New York stock exchanges.

UPM has a long tradition in the Finnish forest products industry. The group's first mechanical pulp mill, paper mills, and sawmills started operations at the beginning of the 1870s. Pulp production began in the 1880s and paper converting in the 1920s with plywood production starting the following decade. The present group was established in autumn 1995 when the Kymmene Corporation and Repola Ltd and its subsidiary United Paper Mills Ltd decided to merge. The new company started its operations May 1, 1996. It comprises approximately 100 production facilities that were originally functioning as independent companies.

Metsäliitto Group is one of the biggest forest companies in Europe. Metsäliitto cooperative, consisting of over 130,000 private forest proprietors, is the Group's parent company that accounts for the procurement of wood for the Group's production plants. Metsäliitto's main fields are chemical (M-real, Botnia) and mechanical (Finnforest) forest industry.

Kesko is Finland's biggest trading sector group. Kesko's focus areas are the creation of new trading systems and store types, purchasing and logistics services, marketing, and the development of its retail store network.

The domains of Kesko are the following:

- Kesko Food Ltd: groceries trade (53% of net sales in 2003)
- Rautakesko Ltd: building and interior decoration supplies trade (14% of net sales in 2003)
- Kesko Agro Ltd: agricultural and machinery trade (11% of net sales in 2003)
- Keswell Ltd: home and speciality goods trade (10% of net sales in 2003)
- Kaukomarkkinat Oy: international technical trade, branded products trade (4% of net sales in 2003)
- VV-Auto Oy: car and spare parts trade (8% of net sales in 2003)

Kesko's main market area is Finland, but the Group has also expanded its operations to neighbouring countries: Sweden, the Baltic countries, and Russia. In addition, Kaukomarkkinat operates in over 20 countries.

Outokumpu is a metals and technology group. Outokumpu’s core businesses are stainless steel, copper products, and technology, in which it aims to be the world leader. Outokumpu's products, technology, and services are marketed worldwide to customers in a wide range of industries—from catering and households to building and construction, transportation and industrial machinery and equipment, as well as to electronics and communication. Outokumpu employs some 19,000 people in more than 40 countries. The Group's net sales amount to some EUR 6 billion, 90% of which is generated outside Finland. Outokumpu Oyj has been listed on the Helsinki Exchanges since 1988.

Metso Corporation is a global supplier of process industry machinery and systems, as well as know-how and aftermarket services. The Corporation's core businesses are fibre and paper technology (Metso Paper), rock and mineral processing (Metso Minerals) and automation and control technology (Metso Automation). Metso’s net sales in 2003 totalled EUR 4,250 million and it employed 26,240 people. 46% of net sales came from Europe, 23% from North America, 19% from Asia-Pacific, 6% from South America, and 6% from the rest of the world.

KONE is a global service and engineering company that specialises in moving people and goods. It comprises two divisions: KONE Elevators & Escalators and Kone Cargotec. KONE Elevators & Escalators sells, manufactures, installs, maintains, and modernises elevators and escalators, and services automatic building doors. Kone Cargotec supplies products and services to ease moving and loading goods. KONE operates some 800 service centres in more than 40 countries. The company’s B shares are listed on the Helsinki Exchanges.

4.2 Presentation of the Findings

As a general note, one can say that codes of ethics seem to be a very recent phenomenon in Finland. It is true that many companies have discussed their environmental responsibilities for several years already, but developing more complete codes of ethics that also involve ethics statements or discuss social responsibilities of companies is a new thing.

Among the companies studied, the first “complete”, large-scale code of ethics was published by Fortum in 1999, followed by Kesko in 2000. After the pioneers came the forest sector with UPM-Kymmene and Stora Enso in 2002. Also Metso published its first Sustainability report in 2002. These five companies are those that have an extensive public statement concerning their ethical, social and environmental responsibilities, both in a printed version and on the Internet. Their responsibility reports are clearly separate from their annual reports, though they also have short sections discussing the issues there. Also Nokia has significantly increased its discussion of ethical and social matters on the Internet in the past couple of years (Malin and Holtari 2001). However, the company published its first real corporate responsibility report on the Internet for the year 2003. Before that, the issues were discussed, but a distinct report was only made on environmental issues. Four companies out of ten, namely Nordea, Outokumpu, Kone, and Metsäliitto, still do not publish a separate document discussing ethical and social responsibilities. Nordea has a short section devoted to the issues in its annual review, and a somewhat more extensive discussion on the Internet. Outokumpu has an environmental report on the Internet since 2000, which contains a short section discussing ethical and social responsibilities. The company is planning to publish its first complete corporate responsibility report as soon as the company's CSR development process allows it[20]. Metsäliitto is quite a special case. Each Metsäliitto Group company (Finnforest, M-real and Botnia) reports separately on its environmental and/or social responsibility issues, but the group only discusses its responsibilities shortly on the Internet and in its annual report. Kone, has clearly formalised its CSR activities the least of all. The company only has very short sections about its personnel and the environment in its annual report and on its Internet site.

All in all, one can only state that there are significant differences in the scale, as well as in the scope and emphases of the codes studied. However, all the case companies do have some kind of a code of ethics and a clear trend seems to be moving to large scale, in-depth statements about ethical issues. For the purpose of this study, all the above-mentioned documents, both printed and Internet versions, were examined. Some companies also had small leaflets related to the issues, which were naturally taken into account. It should be noted, though, that with regard to Metsäliitto, only the group-wide code of ethics was studied. The same applies to Nordea: Nordea Bank Finland employs the group-wide Nordea code of ethics.

A general impression regarding the reasons given for the use of a code of ethics is that the amount and variety of reasons varies quite significantly. Whereas companies like Kesko, Nokia, and Stora Enso make it very clear why they use a code of ethics, other companies, particularly Metsäliitto, Kone, and Nordea are much less explicit about their reasons. However, in general the reasons are relatively clearly indicated. The companies that do not really put them forward are the same companies that do not have a separate publication for ethical issues and, thus, they do not really need to justify their statements as much.

[20] According to Anne-Mari Ylikulppi, Outokumpu Corporate Communications (e-mail discussion, 30 July 2004).

In the following section the main empirical findings will be presented. As discussed earlier, the aim of this study is not to go deep into any particular case. Rather, the case companies are only used to illuminate the research question. The empirical findings will, therefore, be presented by themes and the case companies will not be handled separately.

4.2.1 Reasons

When analysing the written codes of ethics of the case companies, seven different categories of reasons could be identified. This section, the presentation of the found reasons, is structured around these categories. The categories are also listed in Table 3.

REASONS FOR ADOPTING A CODE OF ETHICS	**CODE**
Contributing to the well-being of society	WBS
Economic performance / operational efficiency	EOE
Image / reputation / brand management	IRB
Conforming to external expectations / gaining legitimacy	EXP
Business opportunity	BOP
Acting as a model / promoting CR in general	MOD
Creating a coherent corporate culture	CUL

TABLE 3: REASONS FOR ADOPTING A CODE OF ETHICS

To get an idea of the relative importance of these found categories, their occurrence in the codes of the case companies was mapped. The results can be seen in Table 4. One should note that only the written codes of ethics were taken into account, not the interviews. Including the interviews would have resulted in an unbalanced view as not all the case companies were interviewed.

	WBS	EOE	IRB	EXP	BOP	MOD	CUL
Nokia	X	X	X	X	X		X
Stora Enso	X		X	X	X	X	
Fortum	X	X	X		X		
UPM-Kymmene	X	X	X	X			
Metsäliitto	X			X			
Nordea Bank Finland	X	X	X			X	X
Kesko	X	X	X	X		X	
Outokumpu	X	X		X	X		
Kone	X	X					
Metso	X	X	X	X	X	X	X
TOTAL	**10**	**8**	**7**	**7**	**5**	**4**	**3**

TABLE 4: THE OCCURRENCE OF THE CATEGORIES

Contributing to the Well-Being of Society

As contributing to the well-being of society is the basic idea of corporate responsibility (CR), it is quite naturally mentioned, directly or indirectly, in all case companies' codes of ethics. However, though this seems to be a popular reason, it is usually mentioned in a side sentence, which clearly gives the impression that "producing good for society" is most often a secondary reason for companies' commitment to ethical behaviour, not the driving force behind it. Nokia's ex-responsible for ethical issues in the supply chain, Hanna Kaskinen, puts this in the following way: "*One reason is that we need to be good because we want to be good, but I would say that the big thing why we are doing this* [supply chain ethics] *is because it is a business risk*"[21]. In other words, companies seem to adopt codes of ethics for other reasons and treat the well-being of society as a truly valuable thing, but yet as a by-product.

[21] The quotation is from the new documentary film about Nokia's ethical behaviour, "Säädyllinen tehdas" (Thomas Balmès, France & Finland 2004).

However, there are some small exceptions to the above general rule. For example, UPM-Kymmene clearly gives the impression that the well-being of society is one of the most important reasons behind its activities: *”The well-being of people and the community are the real goal of sustainable economic growth”* (UPM-Kymmene Corporate Responsibility Report 2003:9). Also Stora Enso claims to put its business interests aside sometimes and act from a moral principle: *“We don’t buy timber from rain forests, for example, even though it would often be a lot cheaper for us, we just don’t”* (Stora Enso Performance & Responsibility 2002:34). Stora Enso also explains its responsible activities by saying (among other things) that *“sustainability is the right thing to do”* (Stora Enso Sustainability; The key to long-term profitability: 3).

Economic Performance / Operational Efficiency

A frequently stated reason for responsible behaviour is that it often increases operational efficiency. Altogether eight companies mention this reason. Especially caring for the environment is seen as a means to increase efficiency, as e.g. environmentally friendly production processes “make more out of less”, which also means reduced costs related to raw materials and energy consumption. Outokumpu puts this in the following way: *“Improvements in process control systems are an important activity for Outokumpu for economic reasons if for nothing else. However, these systems also help to reduce the environmental disturbance from industrial activity”* (www.outokumpu.fi, 1.12.2003).

Also Kesko emphasises that the main reason behind its commitment to ethical behaviour is that it improves the economy and the efficiency of the company’s operations (Kesko Corporate Responsibility Reports 2002 and 2003). Moreover, Jouko Kuisma from Kesko (interview 18.12.2003) sees a clear link not only between environmental and economic performance but also between social and economic performance. This is e.g. due to the noted fact that the well-being of employees reduces sickness, accidents, and mistakes at work, and improves quality.

It should be noted that economic performance here is considered as a *short-term* benefit, as a direct link between responsible behaviour and efficiency. Economic performance is, however, also very often stated as the main *long-term* aim behind a code of ethics. This aim is discussed in Section 4.2.2.

Image / Reputation / Brand Management

The third most popular reason for making a commitment to ethical behaviour is that it enhances or protects the company's image or reputation and is a tool in brand management. These issues, through customers', employees', investors' and community's trust, are in turn acknowledged as fundamental to the ability to do business.

Having a reputation of a "good corporate citizen" is often seen as a competitive advantage when contending for customers. Furthermore, the importance of this kind of reputation in the eyes of customers is only considered to grow in the future. This trend seems to be particularly well anticipated by Kesko:

> *"Company ethics and social responsibility are emphasised as competitive assets. Future consumers will increasingly choose products and services of those companies that recognise their corporate responsibility. […] Safety, reliability and ethics will gradually rival price as a factor in communications and marketing."* (Kesko's Year 2002:13, Corporate responsibility report 2002:9)

In addition to customers, a good reputation in terms of responsibility is considered vitally important when competing for new employees and motivating existing ones. Employees, in turn, are commonly conceived as companies' most important asset. Nokia describes the importance of employees in the following way:

> *"Innovative, skilled and motivated employees are our most important asset. Responding to their expectations on corporate values, openness, career development, performance management, diversity and work-life balance is important for attracting, retaining and motivating employees."* (www.nokia.com, 1.12.2003)

It is widely recognised that recruiting and maintaining good employees is becoming more and more difficult. Not only do employees tend to be less committed to one company but also the retirement of the baby boomers will make employees an increasingly scarce resource in the future. This situation seems to be well acknowledged by the case companies: the majority of them mention attracting and motivating employees as one of the main reasons behind their code of ethics.

Kesko describes the linkage between image and competition for employees in the following way:

> *"The values and appreciation of the company and its brands contribute to the attraction of the job. Kesko's corporate responsibility actions interest the new generation now entering working life and thereby facilitate recruitment. […] Our good track record in the area of corporate responsibility will secure our position in times when labour is scarce."* (Corporate responsibility report 2002:3)

Even if enhancing company reputation seems to be one of the important reasons for using a code of ethics, reputation is even more commonly related to the risk of losing it. Many companies talk about "reputation risks" or "image risks" that codes of ethics help to manage. This view is naturally based on the assumption that codes of ethics lead to proper behaviour, but also on the possibility that if judged “responsible”, companies tend to be treated more favourably in times of crisis (Carasco and Singh 2003)[22]. Reputation risks are discussed in many written codes and also brought up in all the interviews. The interviewees mentioned some famous warning examples, namely recent business scandals, where the companies’ reputation was lost in the blink of an eye. Like Sonja Lohse from Nordea (interview 17.8.2004) puts it, *“a reputation that has been built during decades can be lost in one afternoon”* (translated by the author).

Nokia describes the need to protect its brand in the following way:

> *“The Nokia brand is one of the most valuable in the world, so a good reputation is vital in order to maintain our standing among employees, investors, network operators and consumers, […] protect the Nokia brand and build a reputation for citizenship. The most obvious link to Nokia's strategy can be found in the strategic intent, where "trusted brand" clearly demands a good reputation.”* (www.nokia.com, 1.12.2003)

Stora Enso is also one of the clearest examples of a company for which avoiding image risks seems to be the prevalent reason behind the company’s ethical engagements:

> *“During 2002, the sales and marketing organisation created a task force to develop the Stora Enso Business Conduct Guidelines. According to these guidelines, the main principle is to ensure that the Group’s reputation and credibility is never endangered because of unethical business practices. […] Ultimately sustainability is about building trust – a commodity that no multinational company can take for granted, particularly in times when the legitimacy of globalization is questioned. […] Sustainability is one of the cornerstones of the Stora Enso brand.”* (Stora Enso Performance & Responsibility 2002)

[22] See Section 2.5.2.

Conforming to External Expectations / Gaining Legitimacy

Today, around the world, a wide range of stakeholders is showing greater interest in the ethical performance of companies. This trend is clearly brought out in the codes of ethics of the case companies. The companies seem to recognise that the pressures for transparency and ethical engagements are increasing all the time and that conforming to these pressures is vital for their survival.

Stora Enso reasons its sustainability activities in the following way:

> *"Looking after the environmental aspects of sustainability has been a vital part of Stora Enso's customers' requirements for a long time. Many of the Group's customers are nowadays increasingly interested in the social performance of their suppliers"* (Stora Enso Sustainability 2003:9).

Also Metsäliitto has created its environmental objectives, among other things, *"to recognise and take account of customers' and members' environmental requirements in all its operations"* (Commitment to corporate responsibility, www.metsaliitto.com, 2.9.2004).

Nokia's attitude to ethical issues has also been affected by external demands. Veli Sundbäck, Nokia's executive level responsible for ethical behaviour, says in the interview of Talouselämä (Malin and Holtari 2001) that Nokia became active in CSR (at least partly) because of public expectations. Still in 2001 Nokia did not have a formal model for CSR, nor did it have a full-time CSR director. Consequently, the company was criticised for being passive in examining ethical questions. Because of this, an advisement group was formed and a position of a full-time CSR director was established. (Malin 2003) The role of external expectations also comes up in the new documentary film about Nokia's activity in ethical issues[23]. According to Nokia's ex-responsible for ethical issues in the supply chain, Hanna Kaskinen, people, especially important investors, have started to ask a lot of questions about Nokia's ethical behaviour and because of that, Nokia has had to start working on formalising ethical issues and creating a system of ethical assessment for the supply chain. In sum, even though Nokia's practices would have always been relatively proper, it clearly seems that external expectations had a major role to play in Nokia's decision to take a more active role in ethics and to adopt a complete code of ethics.

Not only are NGOs, media, employees, and customers more vocal about their expectations, also investors are conducting more research into the ethical performance of companies. As Stora Enso states, *"an increasing number of investors are paying attention to companies' sustainability performance. Such investors can make use of various indexes designed with their specific needs in mind"* (Stora Enso Sustainability 2003:11). In some cases it even seems that codes of ethics are, to a large extent, created to target this group of investors. Interestingly, related to this, many of the case companies participate in the Dow Jones Sustainability Index (DJSI), which is probably the most employed sustainability index. Stora Enso, Metso, and Nokia have even been ranked number one in their industries this year (DJSI World).

In fact, notwithstanding the impression one might get from the public discussion about corporate responsibility (CR), when it comes to external expectations, consumers seem not to be the most critical group for companies. It is explicitly argued (e.g. Kuisma/Kesko, interview 18.12.2003; Stoneham/Nokia, interview 26.8.2004) that consumer expectations are still not very high. Also Kettunen from M-real argues that *"there are hardly any planks left unsold because the wood is from an uncertified forest"* (Yrjölä 2003, translated by the author). The campaign

[23] "Säädyllinen tehdas" by Thomas Balmès, France & Finland 2004.

report on European CSR Excellence 2002-2003[24] even states that consumer ignorance is a problem for sustainability because consumers do not value sustainable products and services, especially if they cost more. However, even if consumers themselves would not be aware of their interests in terms of sustainability, these may be pronounced through other channels, e.g. by consumer associations and NGOs representing consumer interests.

Another issue related to external pressure is that it seems to be especially important for big companies, just as it was assumed when selecting case companies. Like Stora Enso states, *"the leading companies in any sector are more closely scrutinized by all kinds of stakeholders than the rest of the industry"* *(*Stora Enso Sustainability; The key to long-term profitability: 3).

From all the arguments emphasising conformity to external pressures, it is clear that the case companies see conformity as vital for the ability to do business—it is about producing what and *how* customers and investors want, which is, after all, the main idea of business. Moreover, some companies even mention the word "license to do business", i.e. legitimacy. Like Stora Enso puts it, *"sustainability supports the license to operate"* and *"enhances access to capital"* (Stora Enso Sustainability; The key to long-term profitability: 3). Also Nokia argues that *"the 'license to do business' begins with legal compliance and good practice, to which environmental work and employee programs contribute"* (www.nokia.com, 1.12.2003). Outokumpu, for its part, emphasises that the company *"can only operate with a mandate from society, in harmony with its norms and values"* (www.outokumpu.com, 1.12.2003). It must be noted here, however, that even if some companies indeed seek acceptance for themselves by using a code of ethics, there are also companies that bring up the need to legitimise the whole industry with good practices.

[24] http://www.csrcampaign.org/publications/default.aspx

An interesting notice is made by Lohse from Nordea (interview 17.8.2004), who argues that external pressures focus essentially on making codes of ethics public, not so much on the actual content and commitment, which have always existed, at least in Nordea. Making public declarations is, however, regarded as ill-fitting to the Nordic business culture where, unlike in many other cultures things are, apparently, first and foremost done, and communicated only after, if at all. Jari Lemetyinen from UPM-Kymmene (interview 19.12.2003) even says that making public statements about how well the company behaves may sometimes be regarded as boasting—a particularly negative thing in the Finnish culture. Nevertheless, since the case companies are all very international, they have had to conform to international practices. At least Lohse from Nordea (interview 17.8.2004) sees the situation that way: *"If we want to be regarded as an European bank, we have to act like one. So to avoid any wondering, it is easier just to conform to the existing [European] model of doing these things"* (translated by the author).

Though many companies have adopted their codes of ethics in order to respond to external pressures, some of them deny this reactive approach and rather emphasise that, thanks to their proactive approach, external pressures have come after their commitment. The undeniable pioneer of CR in Finland, Kesko, even argues that responding to external pressures or demands is actually an indication of the company being too late in developing its code of ethics (Kuisma, interview 18.12.2003). Indeed, whereas Kesko thinks it has been able to work with these issues tranquilly at its own pace, Nordea (Lohse, interview 17.8.2004), one of the last case companies to adopt a code of ethics, sees external pressures as an interference to its corporate responsibility development process.

Business Opportunity

Some researchers (e.g. Googins 2001) have discussed the trend of using codes of ethics more and more strategically. Some companies indeed seem to make sustainability a cornerstone of their brand image and consider the pressure for ethical behaviour as a concrete business opportunity. Not only does the general perception of a company's responsibility attract its stakeholders, making codes of ethics an advantage in competition, but the pressure for responsibility also increases the demand for certain kinds of products. Taking advantage of this possibility of product differentiation is, for some companies, an important reason behind their code of ethics.

Outokumpu is one of the companies that clearly seems to recognise the business opportunities hidden in the demand for responsibility:

> *"Eco-efficiency creates new business opportunities. Consideration of environmental matters and environmentally safe products bring appreciable added value and success—both for us and our customers. When metal products are largely the same in other aspects, customers more and more often turn to the most environmentally friendly producer. […] Demand for energy-efficient and environmentally friendly technology is expected to grow rapidly in the future."* (www.outokumpu.com, 1.12.2003)

Another company emphasising responsibility as a business opportunity is Fortum, who e.g. defines one of its four targets for the Climate Initiative as *"continuous increase in the number of climate benign products and services (as appreciated by customers and markets)"* (Fortum's Climate Initiative 2000, www.fortum.com, 2.9.2004) Also Stora Enso specifies that its *"objective is to gain competitive advantage by offering products that also meet customers' requirements on sustainability"* (Stora Enso Sustainability 2003:9). Finally, the whole idea of codes of ethics being an important business opportunity is well crystallised by

Nokia: *"Our strategy is to translate stakeholder expectations into business value."* (www.nokia.com, 1.12.2003)

Acting as a Model / Promoting CR in General

As the case companies are mostly industry leaders in Finland, some even in the world, it seems quite natural that they assume some responsibility as model companies that should promote corporate responsibility in general. Nordea states this in the following way: *"As the largest financial services group in the Nordic countries, Nordea has to be a good example"* (www.nordea.fi, 2.9.2004, translated by the author). The same kind of willingness can be seen in Metso's statement:

> *"As a leading player we know our responsibility to promote sustainable development. […] Metso wants to be an industry shaper in its chosen businesses. We want to promote the industry's environmental performance by developing eco-efficient solutions"* (Metso Sustainability Report 2002:10)

Being a model company, a pioneer in the area, seems to be especially important for Kesko, who has quite clearly developed its CR activities to the largest extent. Kuisma (interview 18.12.2003) says this is because *"if one wants things to be done in a certain way, one has to run the show"* (translated by the author). Indeed, the company is very actively involved in developing CR issues in several international organisations and aims to create models for corporate behaviour in this area—models that will serve e.g. Kesko's competitors. Thus, even if on the other hand codes of ethics are considered as a competitive issue, on the other hand companies are in the same boat with these things. As Jari Lemetyinen from UPM-Kymmene (interview 19.12.2003) says, *"how individual companies act has a major impact on how the system as a whole functions"* (translated by the author).

Lohse (interview 17.8.2004) is very much in step with the above statement. She argues that whereas 10-15 years ago people would not have questioned companies', or at least banks', morality, today there exists a certain lack of confidence or even distrust towards companies. This situation is at least partly caused by some individual company scandals, which have cast a shadow over the entire business world. It may even be that codes of ethics have become increasingly important as a tool in the attempt to prove wrong the basic suspicion of companies' immorality.

Creating a Coherent Corporate Culture

For some companies, adopting a code of ethics seems to be a tool in creating a coherent corporate culture, because it defines common practices and operating principles. For this purpose, however, the values need not necessarily have ethical content.

One could assume that the more international the company, the more this function of codes of ethics is important—and challenging. This view is supported at least by Lemetyinen from UPM-Kymmene (interview 19.12.2003), who defines corporate culture as one of the main reasons behind the company's code of ethics:

> *"We operate in many countries and regions and cultures, so we thought that it would be good to have some basic principles that are made and accepted together, so that in different parts of the world it would be easier to know what our premises are"* (translated by the author).

Moreover, building coherent corporate culture is most probably important in companies that have recently gone through a merger, such as Nordea and Fortum. Indeed, Nordea does emphasise this reason for using a code of ethics: *"A common* *set of values and behavioural guidelines is a core element in building a common corporate culture, the very glue that makes one bank of previously separate entities"* (Nordea Annual Review 2003). Lohse (interview 17.8.2004) confirms this and says that the main function of Nordea's code of ethics is that it supports the idea of "One Nordea". Hannu Härkönen from Fortum (interview 18.12.2003) also identifies the main reasons behind Fortum's code of ethics as related to their brand and to managing the company's internal culture.

4.2.2 Ultimate Aim

The ultimate aim for the use of a code of ethics is clearly stated by some companies and in other cases can be read between the lines. Even if companies do seem to have society's interest in mind as well, the prevalent aim is to enhance the bottom line. Nokia is one of the companies that bring this out in a straightforward way: "*Doing business in a responsible way makes business sense to Nokia. It helps us create a sustainable product life cycle, sustainable employment, sustainable corporate reputation, ultimately sustainable economic growth"* (www.nokia.fi, 1.12.2003). The economic growth here naturally implies *long-term* growth, as many activities with an ethical label tend to create costs in the short term.

Nordea also emphasises that enhancing shareholder value is finally the ultimate purpose of their commitment to ethical behaviour:

> *"The CSR strategy, focus areas, policies and procedures, have all been developed as reflections of the Group's business strategy and actively designed to support our business objectives. […] Managing business ethics, environmental and societal risks, as well as maintaining a common community social impact are important elements of protecting and enhancing shareholder value […]."* (Nordea Annual Review 2003:55)

Legitimacy also comes up as the ultimate aim behind ethical codes: *"Sustainability supports the license to operate…and attracts access to capital."* (Stora Enso: Sustainability; The key to long-term profitability: 3)

A further issue that clearly arises is the importance of competition. Being the best in the area of corporate responsibility, and recognised as the best company, seems to be one of the main aims for certain companies. Nokia states this in the following way: *"Our aim is to be among the best in corporate responsibility as defined by performance and benchmarking in individual programs, employee satisfaction and external reputation."* (www.nokia.com, 1.12.2003) Stora Enso has very similar aims: *"The Group's overall strategy is to aim for operational excellence and superior performance and image in the field of sustainability. […] Stora Enso aims to excel in sustainability, and to be recognized for its achievements."* (Stora Enso: Sustainability 2003: 10, 30) The latter statement clearly gives the impression that the company uses its code of ethics mainly to achieve a certain reputation.

4.2.3 Additional Remarks from the Interviews

In the interviews it was possible to ask questions that are relevant for the models of the theoretical framework but could not be answered based on the written codes of ethics. Some of these issues will be discussed in this section.

The Need to Have a Code of Ethics

The views concerning the necessity to have a code of ethics seem to be somewhat contradictory. Some interviewees argued that having a written, public code of ethics is not imperative as the essential thing is to *act* correctly. However, three out of five company representatives strongly feel that they could not operate anymore without a code. Even if they think as well that behaving properly is the fundamental point, they see public pressure for written statements so strong that not having one would not be wise or realistic. Nevertheless, as discussed in Section 4.2.1, many interviewees argued that giving public statements about responsible behaviour does not suit well the Finnish business culture. In fact, they do not generally seem to be overly enthusiastic about the demand to make their ethical engagements public. All of them emphasised that in Finland, as in the Nordic countries in general, practices have always been good and proper and companies have traditionally been "good corporate citizens", though they have not called their actions "corporate responsibility". Thus, many of the issues handled in today's codes of ethics have always existed on the practical level; only now have companies faced the external demand to formulate their operating principles in writing and make them public.

Differences between (Northern) Europe and the US

It was quite surprising to note that all the interviewees brought out the idea that Europeans and North Americans tend to have a different conception of corporate responsibility and business ethics. The common view, in brief, is that whereas Europeans focus on how they operate in their everyday business practices, North Americans focus more on what they do with the money they have made. In other words, in Europe CR activities are more tied to the actual business whereas Americans see CR as an "add-on activity", as something that is not part of "everyday business". In practice, the American way tends to equate charity or community involvement activities. This view is supported e.g. by the research of the World Economic Forum[25], in which Finland was ranked number one in ethical behaviour of companies but very low in doing charity, whereas the US was number one in charity. Additionally, according to a survey of the Finnish Central Chamber of Commerce, charity is relatively rare in Finland: only 17% of companies consider it important (Malin 2003). However, even if this were the situation now, it is argued (Hagelin 2003) that the Finnish way of practicing CSR is fast approaching the American model, i.e. the focus seems to be shifting from ethical behaviour to visible measures such as charity.

Many interviewees also argued that in the Northern European countries responsible behaviour is very typical, even a traditional way to behave. Related to this, issues tend to be thought through before a company makes any public statements, whereas in Anglo-Saxon cultures companies tend to give grand promises first and start thinking about their implementation only afterwards, if at all (e.g. Lohse, interview 17.8.2004).

It is indeed interesting to note that though business ethics as a field of study and practice was born in the US and has always had a certain American flavour, one can note, simply by looking at the Dow Jones Sustainability Index[26], that the best companies are for the most part European—not to mention that Finnish companies are very well represented.

Conflict between Economic and Social Performance

Continuing the above discussion, the case company representatives do not see a conflict between the economic and the social performance of their companies.

[25] http://www.weforum.org/pdf/Gcr/GCR_2003_2004/Finland.pdf and http://www.weforum.org/pdf/Gcr/GCR_2003_2004/USA.pdf
[26] http://www.sustainability-indexes.com/htmle/djsi_world/isectoroverviews.html

They seem to agree that if only thinking about short-term financial targets, many "responsible" activities do incur costs. However, all of them see a long-term link between responsible behaviour and economic success, in fact to the extent that success would not even be possible without ethical behaviour.

This view may be related to the different conceptions of business ethics as well. Business ethics literature does see a conflict between the economic and the social performance of companies, but one has to remember that most literature comes from the US, where ethical behaviour focuses more on charity, whereas in Finland it is more about good, efficient, and proper everyday operations.

Future

All the interviewees seem to think that ethical behaviour of companies is here to stay. However, they also predict that after a certain time, it is going to be part of normal business practices (again). In other words, the issues themselves will not disappear but the external discussion around them, and maybe also the public codes of ethics, will disappear after a while. However, according to Kuisma from Kesko (interview 18.12.2003), the trend has not yet reached its highest point and e.g. the interest from consumers is only going to grow in the following years.

5 ANALYSIS AND DISCUSSION

In this chapter, the presented empirical findings will be compared to the three propositions of the theoretical framework. Based on the results of that comparison, the role of the different views will be discussed and the following practical implications will be evaluated. Finally, based on the discussion, the theoretical framework will be revised.

5.1 The Findings vs. the Theoretical Framework

Among the seven categories of reasons identified from the empirical material, two seem to match well with the view of business ethics literature: “contributing to the well-being of society” and “acting as a model/promoting CR in general”. The first category is built on the idea of moral duty as it clearly implies that contributing to the well-being of society is simply the *right thing to do*. It is also congruent with the ideas of utilitarianism, as the case companies tend to say, directly or indirectly, that their operations aim to create as much good as possible for society at large. The latter category of reasons has the same kind of reasoning behind it. Promoting CR in general must be based on the idea that being responsible is the right thing to do and it should thus be in every company’s agenda.

The second barrel of the theoretical framework, the traditional view of business, seems to be well supported by the empirical findings as well. The most obvious match is the category “economic performance/operational efficiency” which is more or less perfectly congruent with the propositions of the traditional view. According to both of them, responsible behaviour is explained by the fact that it increases operational efficiency and profitability and finally maximises profits—the most common aim mentioned by the case companies. In addition, the category "business opportunities" equates the market-driver reason related to this theoretical proposition. Moreover, it could well be argued that the category "corporate culture" refers to making practices more uniform which, in turn, increases the efficiency and predictability of operations. For this reason it can also be considered consistent with the traditional view of business.

In addition to the categories that quite fully match the propositions of the traditional view of business, the category "conforming to external expectations/gaining legitimacy" partly supports the ideas of this view. For example, conforming to concrete customer expectations concerning the company's products is clearly about the traditional role of business, i.e. about making competitive products valued by customers with the aim of making a profit in the process.

Two of the seven categories seem to match the propositions of institutional theory: "conforming to external expectations/gaining legitimacy" (CEE) and "image/reputation/brand management" (IRB). The compatibility can be considered very high, as the first category clearly equates the compliance reason related to the institutional view and the latter goes well with the intangible-driver. However, not all parts of the categories can be assigned under the institutional view alone.

Concerning the IRB category, the match is very good. It is clear that when it comes to avoiding the risk of losing one's reputation, it is all about avoiding punishment, i.e. avoiding being considered illegitimate, which is one of the core ideas of institutional theory. In addition to this, adopting a code of ethics because a responsible reputation attracts, for example, investors and potential employees is obviously about manifesting legitimacy in order to improve access to vital resources. This is one of the main ideas of institutional theory as well. However, as discussed above, part of the CEE category is more in line with the traditional view of business than with the institutional view. This is the case when it comes to conforming to concrete customer expectations concerning the company's products. Making the kind of products that customers want is not done to gain legitimacy, but rather, it concerns the traditional role of companies—maximising profits by making products that sell. However, conforming to general expectations about (manifesting) responsible behaviour with a code of ethics is clearly concerned with trying to gain or maintain legitimacy and, in that way, improve access to resources (e.g. capital from investors). Like Lohse from Nordea (interview 17.8.2004) said, having a code of ethics is much about avoiding inconvenient questions and suspicion about a company's responsible and ethical behaviour (i.e. legitimacy).

5.2 Implications of the Comparison

As could be seen in the above comparison between the found categories of reasons for adopting a code of ethics and the three theoretical propositions concerning these reasons, all the propositions seem to have at least some counterpart in the real world. In other words, none of the propositions fully match the found categories of reasons but all of the propositions match some of the categories. Each proposition tells only part of the story, but together they seem to cover the found reasons very well.

It has to be acknowledged, though, that the importance of each theoretical proposition is by no means equally big and that the visible matches between certain categories and theoretical propositions may not bring out the whole truth. As noted already in Chapter 4, companies mention many reasons for adopting a code of ethics but do not seem to consider them equally important. For example, contributing to the well-being of society is an obvious reason for adopting a code of ethics for all companies, because it is the basic idea behind the whole issue.

Companies, however, seem to treat this reason secondary, as a by-product of behaviour that has more important reasons behind it[27]. It could be, of course, that moral reasons are not always mentioned because they are regarded as self-evident when talking about codes of ethics. Perhaps giving weight to them could even be seen as hypocritical or as boasting. However, the existence of moral reasons altogether could be explained in a completely different way as well: pursuant to the ideas of institutional theory.

According to the ideas of institutional theory, the apparent link between the found "moral" reasons and the propositions of business ethics literature is spurious because none of the reasons can be considered truly moral. The existence of the "moral" reasons can be explained by the institutionalisation of business ethics. Business ethics being an institution, companies need to state socially acceptable and desired reasons for their codes of ethics in order to be perceived as legitimate. In other words, the reasons found in categories "contributing to the well-being of society" and "acting as a model / promoting CR in general" are nothing but a way to manifest a company's legitimacy.

Based on the empirical material used in this study, it is impossible to tell whether the above-mentioned explanations are valid or not. Instead, one can only draw the conclusion that in explaining the adoption of a code of ethics, the emphasis is clearly put on amoral reasons. In other words, the importance of the view of business ethics literature can, supposedly, be located somewhere between "zero" (the institutional explanation) and "rather low" (literal company statements) as the found reasons tend to support either the traditional view of business or the view of institutional theory.

[27] See Section 4.2.1, p.108.

The reasons supporting the traditional view of business and the reasons supporting the view of institutional theory are related to different sides of a code of ethics. Simply put, whereas the reasons supporting the traditional view of business are about the actual engagement (i.e. the content of a code), necessarily leading to related action, the reasons supporting the view of institutional theory are more about making the written engagement, the code of ethics, public. In the latter case the engagement does not necessarily lead to related action. Quite obviously, making a commitment to responsible behaviour because of the need to increase the efficiency of operations, to take advantage of a business opportunity or to make the corporate culture more cohesive could be done without any public statement, whereas enhancing reputation could not be achieved without one. As Stoneham (interview 26.8.2004) says, *"if you think of reputation, then of course it's very difficult just to do good things or do things properly without talking about them"*. Indeed, of the two categories linked to the institutional view, protecting reputation and especially enhancing it seem to be the main factors behind companies' need to make their codes of ethics public. However, adopting a code of ethics because of the need to conform to external expectations presumably serves nothing either if the conformity is not shown to the external world. Being *perceived* as legitimate is, after all, the main point here, and impossible without manifesting the source(s) of legitimacy to the public.

In sum, the traditional view of business and the view of institutional theory seem to provide the most adequate ways to explain the phenomenon of adopting codes of ethics. This conclusion is also very in line with the found aims for using a code of ethics; they were all about enhancing the bottom line and succeeding in the competition for the title of the most responsible, i.e. most legitimate, company. These two ways of explaining the phenomenon will be next discussed.

5.2.1 The View of Institutional Theory

Considering business ethics as an institution appears to be a rather valid way to see the field and the phenomenon of adopting codes of ethics that it includes. However, this broad and complex field does seem to have some special characteristics that merit more detailed discussion. When analysing business ethics from the point of view of institutional theory, it seems clear that the wide domain should be divided into different parts that have institutionalised to a different degree. A distinction has to be made at least between basic moral principles and the more recent "voluntary" activities related to corporate responsibility.

Following Basic Moral Principles

Basic moral principles, such as principles of fairness, honesty and justice, are obviously well institutionalised; they are very often taken for granted as necessary and rational, they have attained a rulelike status and require adherence if a company wants to be considered legitimate. Companies often claim to follow these moral principles for moral reasons, e.g. because they are simply "the right thing to do". However, many real world cases show that these principles tend not to be widely internalised, i.e. part of business people's innermost values. If one considers, for example, the working conditions and wage policies of many "good" Western companies in Asia or Central America, the principles of fairness and justice seem to be rather distant (see e.g. Klein 2001). One does not even have to go that far. Many of the case companies that praise the good Finnish business practices have recently been accused (and some already found guilty) of making cartel agreements, which is not really a sign of fair play. Thus, it seems that the real reasons for following basic moral principles are not always moral[28]. It might even be that the reasons employed represent myths of rationality. For instance, following basic moral principles is often considered as the "foundation of business", i.e. as a necessary, rational thing to do. The assumed real reason, conforming to institutionalised expectations to gain legitimacy, may stay subconscious. The moral reasons that companies tend to mention, in turn, are only a way of manifesting legitimacy.

Indeed, it truly seems that companies have to manifest their adherence to basic moral principles to gain legitimacy. At least these principles are mentioned practically in every code of ethics. In addition, as basic moral principles are often considered as the foundation of business, abandoning them is generally regarded as unrealistic or irrational. All the interviewees stressed that, in the future, following these ethical principles will not change because they are part of the companies' basic, rational way of operating. This statement can be interpreted as a myth of rationality (see above), but it also shows that these principles can be considered very resistant to change.

In sum, it is, of course, possible that companies have moral reasons for following basic moral principles. However, another explanation for the moral reasons mentioned is that people in the case companies only *think* they follow these principles for moral reasons, whereas in reality they try to conform to the institutionalised requirements that exist in their operating environment. The latter alternative seems to be most often supported by evidence from the real world. Business interests seem to override playing fair or promoting justice rather easily—a fact that clearly indicates absence of true moral reasons. It has to be remembered, though, that the press is eager to report of companies that break these rules but does not often highlight companies that truly behave ethically.

[28] The reasons are not moral in the way suggested by business ethics literature and the theoretical framework of this study. See discussion in Section 2.1.5.

“Voluntary” Activities of CR

The “voluntary” activities of CR refer to issues like corporate philanthropy, charity, environmental protection, and taking care of general social welfare. The difference between basic moral principles and these more “voluntary” activities is that whereas breaking basic moral principles makes the breaker “immoral”, not practicing voluntary activities of CR makes a company “irresponsible”, which is, supposedly, not as bad as being immoral, but still makes the company perceived as illegitimate. Here these activities are called voluntary, because they have not (yet?) attained a full rulelike status but basically remain under the discretion of every company. For example, whereas basic moral principles are often coded into the law (e.g. discrimination of employees is illegal, cartel agreements are illegal) or are otherwise strong norms in society, voluntary activities are mostly at the level of norms or even below that. The word voluntary is, however, between quotation marks due to the fact that these issues have been institutionalised and cannot *really* be considered voluntary for a company that wishes to be considered legitimate. It has to be noted though, that drawing the line between “voluntary” activities of CR and basic moral principles depend on the industry in question. For example, whereas environmental protection could well be regarded as a basic moral rule in the paper industry, it is quite obviously a more voluntary issue in the retail or banking sectors.

Whereas the basic moral principles were, supposedly, institutionalised already a long time ago, the institutionalisation of the “voluntary” activities of CR is a more recent phenomenon, dating back only a few years for most issues. In Finland one can even identify a clear “issue sponsor” for the voluntary activities, a champion of the emerging institution: Kesko. The company is clearly the pioneer in developing these issues and seems to have promoted them quite strongly in the recent years. Nowadays, the “voluntary” activities of CR seem to be quite well institutionalised in Finland and almost all the case companies have put at least some of them in their agendas.

However, since the "voluntary" activities of CR are a relatively new thing, they are not as profoundly institutionalised as the basic moral principles. For example, whereas most moral principles are taken for granted as necessary, the responsibilities of companies concerning general social welfare are going through an intense debate these days. Corporate social responsibility is widely discussed but still is not always accepted as the most rational tack. Environmental protection, on the other hand, is generally accepted as necessary and rational, but, for example, when it comes to reducing industrial discharges to a level where business interests may be endangered, companies tend to be opposed to the demand. In spite of the controversy that still exists, however, like the found category of reasons "conforming to external expectations" suggests, companies are more and more often required to manifest their compliance to these demands.

An interesting note can be made related to community involvement, which is an obvious "voluntary" activity. Practically all the case companies have these activities and talk about them in their codes of ethics, but they do not generally mention any reasons for having these practices. In the interviews it arose that the reasons were either related to company image and reputation or not acknowledged. Community involvement activities seem to be (for some companies) "the way things are done", and the author really got the impression that some of the respondents had not thought about why these activities exist. Many interviewees emphasised though that the amount of money that goes into these activities is truly insignificant, so that there is no actual need to thoroughly justify their existence.

Adoption of Codes of Ethics

As discussed above, it seems that some parts of business ethics have been institutionalised for a long time whereas other parts can be considered as a relatively new institution. Still, how is the phenomenon of adoption of codes of ethics related to this view? Why have codes of ethics become popular only in recent years?

A possible explanation for this can be found in sources of legitimacy. As discussed throughout this section, codes of ethics are, from the point of view of institutional theory, a way to manifest legitimacy. Manifesting legitimacy is naturally strongly linked to the sources of legitimacy, which seem to have changed somewhat. More specifically, per Suchman (1995), one could argue that the prevalent source of legitimacy has moved from pragmatic legitimacy to moral legitimacy[29]. This can be seen, for example, in the manner in which legitimacy is demonstrated to the external environment.

Many interviewees argued that what is new about ethical behaviour or corporate responsibility is the need to talk about it in public. They seem to think that whereas before companies simply behaved properly without external stakeholders really being aware of their practices, now this is not enough; proper behaviour has to be "proved" to the external environment by means such as using codes of ethics. However, one could argue that legitimacy related to ethical and social responsibility was manifested before as well; only the ways to do that were different as they were related to a different source of legitimacy.

In times when pragmatic legitimacy dominated, legitimacy was "granted" by local communities who were directly affected by the company's actions. Consequently,

[29] See discussion about Suchman's (1995) sources of legitimacy in Section 2.2.3, pp. 54-55.

if relying on the case companies' statements, companies concentrated on showing their good nature to local communities where their impact was usually significant, for example by providing day care, schooling, and health care for their employees and their children and by supporting local sports teams or other local community activities. In other words, manifesting legitimacy was mostly done in local company units, not on the corporate/group level. Today, when moral legitimacy seems to be the dominant source of legitimacy, the prevalent way to manifest legitimacy has shifted to a higher organisational level. That is, as legitimacy is granted by an increasingly large public (for some companies national, for others even global), "good corporate citizenship" must be demonstrated in a different way. The dominant way to accomplish this is to adopt a corporate/group-wide code of ethics; a "proof" of the company's determination to act in a socially accepted and demanded manner.

The reasons behind this apparent shift in the prevalent source of legitimacy are probably manifold. Some of the most likely include the globalisation of business and the advancements made in information technology. As increasingly more people have access to information about company practices worldwide and an increasing number of people are also affected by these practices, their awareness of, and interest in, the ethical behaviour of companies has extended beyond their local communities. For example, only with the help of today's fast flow of information has general awareness of the world's environmental and social problems increased. The world has become seemingly smaller and society, whose well-being people demand, has expanded from a local village or town to a country or the globe. Consequently, it is not enough anymore to be responsive on the local level; companies must increasingly respond to the expectations of the global community.

In today's complex world codes of ethics work as a rule of thumb. As the practices of multinational companies are of interest to a larger number of people, but at the same time their operations are increasingly sophisticated and difficult to understand, ethical performance has become a clue of companies' trustworthiness and legitimacy[30]. However, because companies' actual ethical performance, meaning the results of their activities, is also very hard to measure, people must base their evaluations on clues here as well. As discussed above, codes of ethics have become the prevalent way to give this clue. This view is supported at least by Jouko Kuisma (Karttunen 2003), who argues that even the Dow Jones Sustainability Index is mainly based on the visible structures of companies that are easy to understand, not on their actual performance, which is very difficult to evaluate. In practice, the "most sustainable" companies may, thus, only be masters of rhetoric. Knowing this potentially makes companies focus on adopting these formal structures and communicating about them—at the cost of doing good things in practice. This, in turn, is exactly what Harri Lammi from Greenpeace reproaches companies for doing (Haukkasalo 2001). He argues that whereas before companies denied all their (environmental) problems, today they unashamedly embellish their activities by creating images of environmentally friendly acts without any real results. Thus, it seems that sometimes there is indeed a loose coupling between the engagements made in codes of ethics and the practical measures taken by companies.

Isomorphism

A further characteristic supporting the institutional view in the field of business ethics is isomorphism. It seems rather clear that the institutionalised requirements of business ethics have made companies look increasingly similar. All the codes of ethics talk more or less about the same issues, same kind of formal structures are adopted and, at least according to many interviews conducted for this study,

[30] See discussion in Section 2.3.3, p.71.

companies tend to follow their competitors' performance in the area—probably to mimic their behaviour and to avoid the risk of being perceived different. The field has also become a jungle of standards, certificates and guidelines that companies try to follow and adopt. This, of course, makes them even more isomorphic.

Commitment

Because it seems that the view of institutional theory provides a good explanation for the development of the field of business ethics, the implications that this view has on companies' commitment to their codes of ethics have to be taken seriously. According to the institutional view, companies' commitment to their codes of ethics is low because of two things. First, as the main reason for having a code of ethics is to show conformity to institutionalised requirements, if this reason disappears, i.e. institutionalised requirements change, companies will presumably not hesitate to abandon their ethical behaviour. Second, as the main purpose of codes of ethics is *manifesting* legitimacy, not actually *behaving* ethically, codes of ethics may be adopted ceremonially.

Though ceremonial adoption should be regarded as a real possibility, in practice many things make it difficult for companies. It seems that many companies have indeed tried it, but given the increasing amount of business scandals that have been made public, quite a few attempts have been revealed—sooner or later. These revelations, as discussed in Section 4.2.1[31], have created a more suspicious attitude towards companies. Thus, the possibility of ceremonial adoption has been recognised and consequently, company practices are today carefully monitored, at least in some parts of the world. There are already a vast number of organisations that have devoted themselves to monitoring companies' ethical behaviour. Even

[31] p.119.

for Finnish companies alone there is Finnwatch[32]. Finnwatch is an organisation that collects, analyses and spreads information on the consequences of Finnish companies' operations on human and labour rights, the environment and developmental and social matters. The organisation's aim is to increase the awareness of these consequences in companies and to encourage them to true responsible action. Indeed, these organisations increase the often-mentioned reputation risks that supposedly not only increase the need to use a code of ethics but also the need to implement the engagements in practice. On the other hand, the need to have this kind of monitoring organisations only proves that companies have a tendency towards ceremonial adoption of codes of ethics. Moreover, as it is practically impossible to follow every company's practices, one can only assume that at least part of the engagements included in codes of ethics remain word mongering.

It has to be remembered though, that ceremonial adoption is not the only option within the institutional perspective: it is possible that companies actually implement their codes of ethics as long as it makes them perceived legitimate. Following the ethical engagements might even continue for a long time, because institutions are resistant to change. However, if ethical issues do deinstitutionalise in the future, codes of ethics are presumably no more needed.

5.2.2 The Traditional View of Business

It seems that many issues of business ethics have become institutionalised to a great degree. However, institutional theory cannot explain all the found categories of reasons—the remaining ones are linked to the traditional view of business.

[32] http://www.finnwatch.org

The categories in question are mostly about the efficiency of operations and about taking advantage of business opportunities. As mentioned above, these are related to the actual content of the codes and require implementing the made engagements. However, it should be specifically emphasised that even if this statement seems to hold, it does not work the other way around, i.e. not all the content of the codes of ethics can be placed to the categories supporting the traditional view of business, and consequently, not all the engagements made in the public codes are necessarily implemented. The need to implement concerns only the issues in the two categories mentioned. These issues, in turn, could be described as "part of normal business", because the main reasons behind them are the same as for most procedures or programs in a company aiming to maximise its profits. In other words, if this study was not limited to issues of business ethics, these categories would include a vast number of company activities, not only practices with an ethical label. This presumably implies that if more rational and efficient procedures become available, these "ethical" or "responsible" procedures are treated like any other "normal" practices, that is, easily left behind.

At a general level one could say that as long as these above-discussed practices that are today considered part of companies' social responsibility or ethical behaviour make business sense, they are actually implemented. In addition, as they are also among the institutionalised issues of CR, companies mention them when manifesting their legitimacy with their codes of ethics—unlike many other issues done to increase efficiency. In respect of the other issues connected to business ethics, the adoption can, in principle, only be ceremonial.

It must also be noted, that if the activities that are adopted mainly because they make business sense stop being the best way to enhance productive efficiency and business advantages, the main reasons behind them will supposedly shift to one of the "institutional" categories of reasons. In other words, taken that issues of business ethics still are institutionalised, these activities will stay in the codes of ethics but their implementation in practice may be given up. Moral reasons are not really a possibility: If they would exist behind these activities, they would, theoretically, be mentioned in the first place, as (true) morality requires placing moral reasons before business interests.

One can thus argue that even if the institutional view of adopting codes of ethics seems to have the most powerful explanation, the traditional view of business plays a role in explaining the phenomenon as well. In principle, one could also interpret the "traditional reasons" as myths of rationality. However, given the fact that the issues that have "traditional" reasons behind them have apparently been in existence since long before business ethics was really institutionalised, this interpretation does not seem very credible. For example, employees have been treated well for a long time because it clearly increases the efficiency and quality of their work, and reduces sick leaves. Only after the institutionalisation of business ethics has good treatment of employees publicly been given an ethical label. Nevertheless, it seems that employees continue to be treated well *mainly* because of the "traditional" reasons—at least that is what the companies state. If in the future it will be proven that good treatment of employees does not (anymore) have a link with the efficiency of operations, companies may basically direct their attention to practices that provably increase efficiency—at the cost of good treatment of employees. If the issue is still institutionalised, however, companies will probably continue to claim that their employees are treated as well as ever. This view is, obviously, a hypothetical situation and a theoretical way to see things. Yet, it basically summarises the nature of the phenomenon rather clearly.

5.3 Revised Theoretical Framework

Based on this research, it would seem that companies commit themselves to ethical behaviour and various social responsibilities either for pure business reasons or in order to enhance the bottom line through legitimacy. However, moral reasons cannot be completely excluded either, even if it strongly seems that they are less important. Companies do state moral reasons for adopting a code of ethics (e.g. ”producing good for society”), but these reasons are usually treated as secondary to amoral reasons. This is why they cannot be considered congruent with the definitions of a moral act provided by the main ethical theories. In spite of this, one cannot completely ignore the possibility that moral reasons are not given proper weight in public statements because they are regarded as self-evident or as boasting. All things considered, the theoretical framework of this study can be considered a rather valid way to explain the trend of adopting codes of ethics—only small correctives in the emphases can be made and some categories of reasons may be added.

Figure 3 portrays the revised version of the theoretical framework. The business ethics literature barrel is faded, indicating its smaller importance or possible non-existence. In addition, one category of reasons is added to the traditional view of business, namely “corporate culture”. The other proposed categories match well with the found categories of reasons.

Regarding the degree of commitment companies have to their codes of ethics, it would seem that commitment probably varies from low (even ceremonial) to moderate. It appears that companies can and often do adopt codes of ethics, at least parts of them, ceremonially. However, engagements taken for efficiency benefits always require implementation and those taken for compliance and intangible reasons can also be implemented. In fact, the latter is more and more

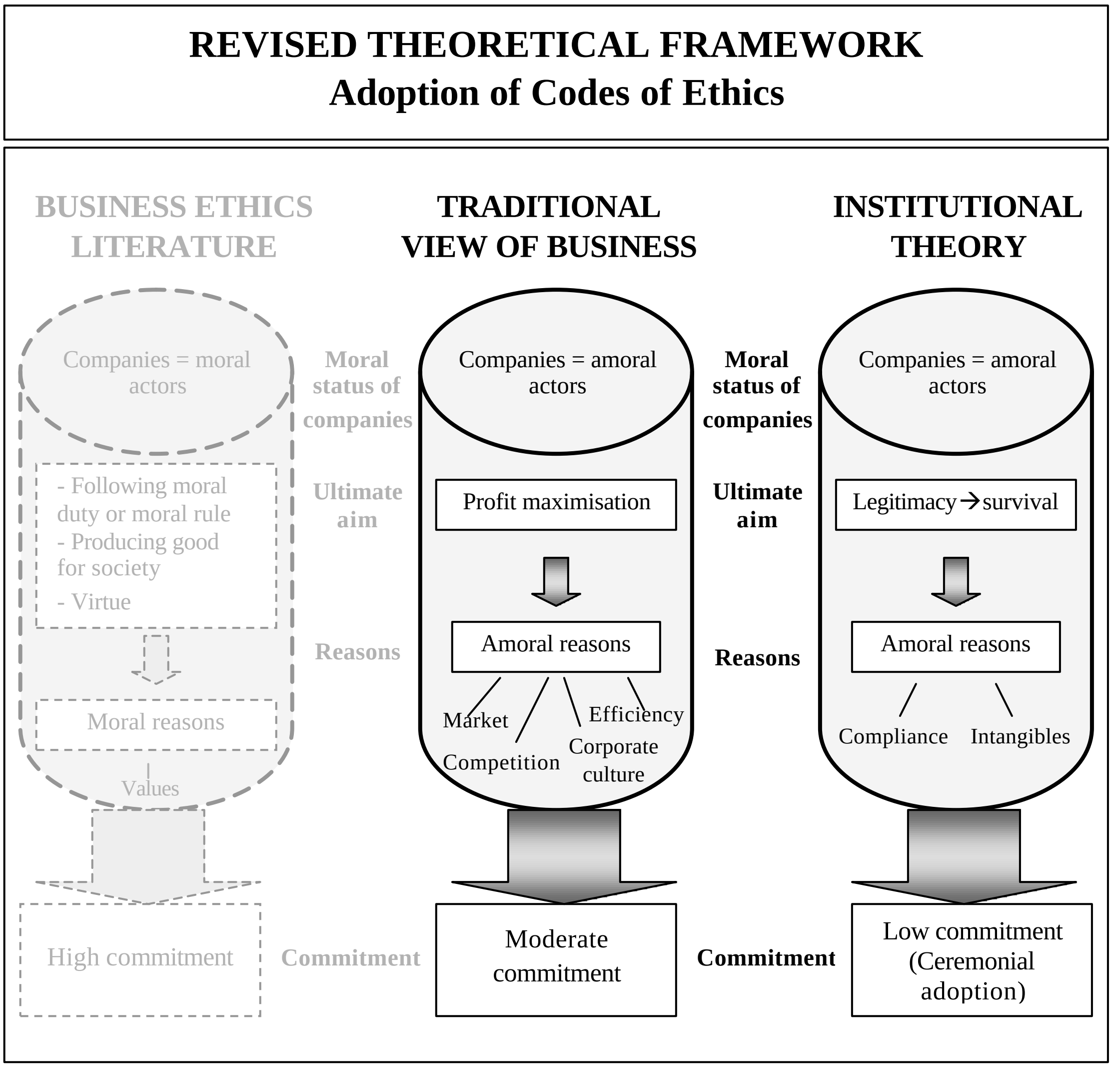

FIGURE 3: REVISED THEORETICAL FRAMEWORK

often the case e.g. due to increased company monitoring. Despite this, commitment to codes of ethics is considered only low or moderate because "ethical" or "responsible" actions are implemented just as long as they are institutionally required or considered the best way to enhance operational efficiency. High commitment, i.e. acting ethically and responsibly even when it is not specifically demanded and does not enhance the bottom line, cannot be totally disclaimed, but it seems to be a very slight possibility.

6 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Main Findings and Conclusions

The goal of this thesis was to shed light on the reasons and aims that companies have for adopting a code of ethics. The topic was found interesting mainly because of the assumed major effect that these underlying reasons and aims have for companies' commitment to their codes of ethics. Besides traditional business ethics literature, the literature of institutional theory was also studied. Based on these two disciplines and on the "traditional way to see business" rejected by both of these disciplines, or at least challenged by them, three theoretical propositions concerning reasons, aims, and degree of commitment were identified. In the following empirical part, the codes of ethics of the ten biggest Finnish companies were analysed and five of these companies were interviewed. The found reasons were grouped into categories, which were then compared to the theoretical propositions. Finally, the results of that comparison were discussed and conclusions from them were drawn.

Based on the empirical findings, considering business ethics as an institution seems to be a valid way to see the field. It seems that some parts of business ethics (mainly basic moral principles) have been institutionalised for a long time already whereas other parts (the more "voluntary" activities) have institutionalised only recently. That companies' must demonstrate their legitimacy by compliance to ethical issues is then nothing new; only the issues have multiplied and perhaps also changed over time. Along with the general trend of globalisation, the main source of legitimacy seems to have changed as well. Legitimacy is no longer granted mainly by local communities but rather by an increasingly large, even global, community. This is why corporate or group level codes of ethics have only relatively recently become the prevalent method of manifesting legitimacy.

The propositions of business ethics researchers do not seem to derive much support from the real world. However, it should be noted that the existence of moral reasons as *secondary* reasons is actually very common. The view of business ethics literature does not seem to have much importance in practice because traditional ethical theories (on which the proposition of business ethics literature is based) consider the secondary position of "moral reasons" opposed to true morality. Still, despite the absence of "true morality", one should remember that companies do seem to have some moral considerations behind their codes of ethics.

The traditional view of business, on the other hand, is somewhat supported by the empirical findings. The nature of the reasons that support this view is purely amoral and thus many of the related practices could be better described as part of normal business practices than as part of corporate ethics or responsibility. For example, one could well argue that taking advantage of business opportunities has nothing to do with ethics or responsibility—it is the very basic role of companies! However, many "normal" business practices have been given an ethical label and have been included in codes of ethics—probably because many of them have institutionalised as part of CR. A good example of that is environmental protection, which is mostly practiced through more efficient production processes.

In conclusion, one can argue that the theoretical framework gives a rather good picture of the phenomenon under study: the empirical findings suggest only slight modifications to it. Even if the institutional view of the phenomenon under study seems to provide a good explanation, the other two propositions cannot be completely excluded either. On a practical level, all this means that companies are assumed to have a basic tendency to adopt codes of ethics just for the show.

However, due to the increased monitoring of company practices, the risks of ceremonial adoption are greater than ever and consequently implementation may be, or at least may become, the dominant way to act. If the institution gets weaker, i.e. deinstitutionalises, companies will presumably pay less and less attention to ethical issues. Deinstitutionalisation concerns predominantly the “voluntary” activities of CR because their institutionalisation is not as profound as that of basic moral principles. The latter can be evaluated as relatively resistant to change, just as many company representatives suggested.

Yet, there are issues that are regarded somewhat differently. Activities related to the traditional view of business, i.e. those that are performed mainly because they increase the company’s operating efficiency or otherwise directly enhance the bottom line, are not that dependent on the institutionalisation of business ethics. The fact that these issues exist in codes of ethics is indeed because they are institutionalised, but their importance does not go away with deinstitutionalisation—provided that their positive effect on efficiency holds.

In sum, the nature of the found reasons is clearly amoral and consequently companies’ commitment to their codes of ethics can be evaluated as only low or moderate. If external demands change or more efficient ways to enhance the bottom line are found, “ethical” or “responsible” practices may easily be forgotten. One should note, however, that even though this change may, in principle, happen in the near future, many current practices make it very unlikely to happen. Thus, low and moderate commitment may sound worse than what they actually imply in practice.

6.2 Theoretical and Managerial Implications

The above-discussed conclusions imply several things for both business ethics literature and company practices regarding codes of ethics.

When discussing environmental and social responsibilities of companies, using ethical terms does not seem completely proper. As is clearly shown, the motivating reasons behind "ethical" and other responsibilities are amoral in nature and thus, referring to companies as moral actors and to their "responsible" activities as moral deeds seems rather hypocritical or naive. This is a point that business ethics researchers should perhaps acknowledge. One should note, though, that the companies themselves do not claim to be moral actors or to act purely out of good will or moral duty. Instead, it is usually very clearly stated that "ethical" and "responsible" action makes business sense and that is why it is practiced. This is especially directly said by the Confederation of Finnish Industry and Employers (TT) in its guide of CSR. TT argues that ethical and responsible behaviour is nothing but a way to manage reputation and company and product image. TT also states that companies care for product quality, natural resources, and drug problems only because customers demand or appreciate it.

Based on this study one could well argue that responsibility and ethics are in fact two very different things. In other words, practices may be responsible without being purely ethical. Maybe, for clarity, a specific term should be adopted for this: *responsibly selfish activities*. In other words, instead of the rather black and white view of business ethics literature, it could be acknowledged that even if companies' "responsible" activities would not be pure benevolence but rather based on their vested interest, they can be considered good and responsible.

Regarding companies' management, the institutionalisation of business ethics implies some important things. Since codes of ethics seem to be commonly adopted in order to conform to institutionalised requirements of the environment, not because they would reflect the actual ethical culture of companies, there might exist significant problems of motivation to put the codes into practice—even when the management would in fact want it (see e.g. Sorrell and Hendry 1994). Even if codes would be adopted full heartedly, they may encourage acting on them only in the presence of exemplary people, i.e. "issue sponsors". In other words, if top level executives not only verbalise ethical behaviour as espoused in the codes but also engage in behaviour that matches the words, as well as reward ethical behaviour in others, then corporate employees will be more likely to take the codes' intent and content seriously as well (see e.g. Mathews 1990). Thus, if motivation problems exist even when codes are adopted full heartedly, one can only imagine how important issue sponsors are when codes of ethics are adopted mainly to manifest legitimacy.

It is also good to note that even if the institutionalisation of business ethics implies amorality and thus conflicts with the idea of pure morality, its consequences for actual organisational behaviour might be positive. In the spirit of Galaskiewicz's (1991) research, conscious efforts to institutionalise meanings, values, and norms, both within the organisation and at the inter-organisational field level, are often effective in changing organisational behaviour. In other words, even though there might be problems of motivation, values brought up by codes of ethics may actually have a role in changing behaviour. The same kind of idea is raised by Hedberg and Malmborg (2003). Applying their findings, one could argue that if codes of ethics give legitimacy for the company externally, then perhaps they give issues of ethics and responsibility legitimacy *within* the company as well. Codes of ethics might, thus, positively influence ethical behaviour through internal legitimacy.

6.3 Limitations of the Study

In addition to the limitations outlined in Section 1.4 and Chapter 3, during the research, some issues that potentially have an effect on the assessment of this thesis arose.

First, though the intention was to interview all the ten case companies, it was only, in the end, possible to interview half of them. The reasons for this are known for two of the non-interviewed companies: one of them refused because they did not have time for this kind of thing and for the other, finding a suitable time was a problem, though the company was favourable to the idea. The refusal is quite understandable, because the company in question has very few public statements concerning ethical issues. As to the three remaining companies, the author received no answer in spite of several messages. One can only venture a guess as to the reasons. Perhaps it was a technical problem so that the representatives did not get the messages, perhaps the managers just did not have the time, or perhaps they did not want to discuss ethical issues with an outsider. In any event, the fact that the codes of ethics of only some of the case companies could be complemented by interviews may, at least somewhat, decrease the reliability of the results. Fortunately, however, the interviewed companies represent well different industries and in that sense the results should not be overly distorted.

Second, the fact that all the interviewed company representatives were CSR managers may result in a particular kind of impression of the companies' "ethical" and "responsible" behaviour. As the interviewed informants work with these issues every day, they have, naturally, considered the kind of answers they should give to outsiders. In other words, they are probably even more inclined to give politically correct answers than would be an average employee. Moreover, the picture that these high-ranking managers have of the actual ethical practices and the reasons behind them might be somewhat different from the picture that an average factory worker or even an average middle level manager has of them. Consequently, it should be pointed out that the results of this study strongly reflect *official company policies*, which are not necessarily in line with the common opinions prevailing in the companies.

Third, unlike it was intuitively thought in the beginning of this study, the empirical results fully support none of the three theoretical propositions. Thus, one cannot give unequivocal answers regarding the tenability of the models but only conclude that some of them seem to have more explanation power than others. Especially the role of moral reasons remains unclear. On the other hand one could argue that companies have more moral reasons for codes of ethics than is apparent on the surface, on the other hand one could argue that even the stated moral reasons exist just for show. Thus, untangling the definite role of the view of business ethics literature requires profound research on the status of moral reasons in companies. The results of this research are limited to the public statements of companies and to the small number of interviews, which could only scratch the surface of these companies' reasoning behind their ethical engagements. Consequently, the results of this study hardly tell the whole truth but are rather indicative by nature.

6.4 Suggestions for Further Research

The most obvious suggestion for further research would be to repeat the same study after a few years when the subject will, supposedly, be somewhat less overheated. This would allow for a final evaluation of the theoretical framework, especially regarding the commitment element, which is difficult to evaluate at this moment.

To specify the theoretical framework of this study, also the status of moral reasons should be further clarified. As discussed above (Section 6.3), in the results of this study, their role remains rather ambiguous. It would thus be extremely valuable to profoundly research the role of moral reasons in companies, to see whether they really exist, even to a greater extent than what is mentioned in the public statements, or whether moral reasons are only stated to gain legitimacy. The results of this kind of research would naturally have importance in evaluating the degree of commitment companies have to their codes of ethics.

As this study is limited to Finnish companies, it would be very interesting to see similar studies from other countries. This would finally allow some international comparison about the degree of institutionalisation of business ethics. It would be especially interesting to see a study comparing Northern Europe and North America, due to the often-mentioned differences between these regions. Another interesting comparison would be between different industries, which would call for studies concentrating on a certain industry/industries across countries. This would be especially valuable because of the big emphasis that institutionalists put on analysing institutional developments on the industry level.

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APPENDIX 1 – Review of Central Concepts

The following terms, listed alphabetically, are considered the most central ones in this study. It has to be noted though that these definitions are not globally accepted. The fields related to them remain very vague about their use and consequently many terms are used incorrectly or interchangeably. However, the following definitions are the ones that are used in this study.

Business Ethics

The Oxford Dictionary of Philosophy defines ethics as *"the study of the concepts involved in practical reasoning: good, right, duty, obligation, virtue, freedom, rationality, choice"*. It also identifies business ethics as a field of applied ethics. According to the Oxford Dictionary of Economics, business ethics can be defined as *"the study of what standards businesses should observe in their dealings over and above the compliance with the letter of law"*. Thus, this definition starts from the assumption that merely obeying the law is not enough in order to behave ethically. The Oxford Dictionary of Economics also specifies that *"if a good reputation helps to gain and retain business, ethical conduct need not necessarily conflict with profit, but there are bound to be cases where it does"*.

Morality and Ethics

The terms morality and ethics have, in principle, different meanings. Simply put, morality refers to the ability to distinguish between right and wrong, whereas ethics is the theoretical study of morality. Thus, morality is practice, and ethics theory. However, the terms are widely used interchangeably, both in everyday language and in business ethics literature. This is partly because it is sometimes difficult to draw the line between ethical theory and ethical practice. Following the common policy in business ethics literature, also in this study the terms morality and ethics are used interchangeably.

Code of Ethics

In this study, like in academic literature in general, a code of ethics refers not only to simple lists of rules but to practically any company statement concerning issues of ethical behaviour, corporate social responsibility or corporate environmental responsibility. It is here treated as a public commitment to responsible and ethical behaviour. Thus, the terms "code of conduct", "operating principles", "company objectives", "social responsibility programme", "public policy", etc. that are so often used in practice are here considered to equate to the term "code of ethics". Also the parts of social responsibility reports or sustainability reports that present intentions or commitment are considered as (a part of) a code of ethics. According to Langlois and Sclegelmilch (1990, quoted in Carasco and Singh 2003:71)

> *"A code of ethics is a statement setting down corporate principles, ethics, rules of conduct, codes of practice or company philosophy concerning responsibility to employees, shareholders, consumers, the environment or any other aspects of society external to the company ".*

Corporate Citizenship

The concept of corporate citizenship is closely related to corporate responsibility and corporate social responsibility, in fact to the extent that the terms are often used interchangeably. Corporate citizenship refers to a two-way, symbiotic relationship between companies and society (Kourula 2002), signalled by commitment to the environment, good treatment of employees, producing safe and reliable products, incorporating ethical practices, in addition to more traditional philanthropy, employee volunteerism, and community involvement programs.

Corporate Responsibility (CR)

There is no single, commonly accepted definition of Corporate Responsibility (CR)—in fact, the term is often used interchangeably with terms like corporate citizenship or corporate social responsibility. Nevertheless, the International Chamber of Commerce defines corporate responsibility simply as *"the voluntary commitment by business to manage its activities in a responsible way"*[33].

Corporate responsibility can be divided into three pillars, widely referred to as "the triple bottom line" (TBL). These pillars are economic responsibility, environmental responsibility, and social responsibility. According to this view then, corporate *social* responsibility (CSR) is only one pillar of the more general concept of corporate responsibility (CR), which means that in principle they are not the same thing. However, for the purpose of this study one can only acknowledge the vague use of the terms and conclude that company statements regarding any of these concepts can be (part of) a code of ethics. Following the general practice, the terms are used interchangeably in this study.

Corporate Social Responsibility (CSR)

As noted above, corporate social responsibility is part of the more general concept of corporate responsibility, even if in practice the terms are often used interchangeably. The similarities of the terms can be seen in the definition that the World Business Council for Sustainable Development (WBCSD) has provided for CSR in its publication "Making Good Business Sense" (2002:8)[34]:

> *"Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"*

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[33] International Chamber of Commerce policy statement "Business in society: making a positive and responsible contribution". Available at http://www.iccwbo.org/home/statements_rules/statements/2002/business_in_society.asp.
[34] Available at http://www.wbcsd.ch/DocRoot/uDwvirSbdbMFmA1rlFNn/csr2000.pdf

After the above definition, CSR can obviously be considered to include not only purely social but also environmental and economic issues. Consequently, in this study as well, the terms CR and CSR are used interchangeably.

Institution

Meyer and Rowan (1977) define institutions as *"socially constructed templates for action, generated and maintained through ongoing interactions"* (Barley and Tolbert 1997:94). According to another definition, namely the one Barley and Tolbert (ibid.) use themselves, institutions are *"shared rules and typifications that identify categories of social actors and their appropriate activities or relationships"* (ibid: 96). In other words, institutions are general assumptions and belief systems in the environment of organisations that define what a specific kind of organisation should look like and what it is supposed to do and not to do if it is to be seen as a member-in-good-standing of its class. Institutions are beyond the judging ability of any one individual or organisation, due to which they are simply taken for granted as legitimate, regardless of their effect on activity or performance. (Meyer and Rowan 1977)

Legitimacy

Legitimacy is one of the core concepts of institutional theory. It is the foremost reason why organisations conform to their institutional environments. Suchman (1995:574) defines legitimacy as *"a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"*.

Scott (1995:59) further describes legitimacy as *"a condition reflecting perceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive frameworks. […] It is a symbolic value to be displayed in a manner such that it is visible to outsiders"*.

Stakeholder

Professor R. Edward Freeman, one of the pioneers of stakeholder theory, defines stakeholders as *"groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions. […] Stakeholders are those groups who have a stake in or claim on the firm"*. (Freeman 1992:39, 41) Stakeholder groups include then at least suppliers, customers, employees, stockholders, the local community, and the management of the company. Environment can also be considered as a stakeholder.

Wheeler and Sillanpää (1997) categorise stakeholders along two dimensions: social/non-social and primary/secondary. Social stakeholders are those that can be communicated with directly, whereas this is not possible with non-social stakeholders such as nature or future generations. Primary stakeholders have a direct stake in the organisation and are thus vital to the survival and success of the corporation, while secondary stakeholders are less involved with the organisation (governments, media, etc.).

Sustainable Development

Just like other terms in the field, sustainable development means different things to different people. However, the most frequently quoted definition is from the report "Our Common Future" (1989:43) of the World Commission on Environment and Development (WCED): *"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*.

In other words, sustainable development has traditionally been understood as the harmony between the environment, society, and economy. One could thus argue that, compared with the concept of corporate responsibility, the term has more environmental flavour in it, whereas corporate responsibility is more often associated with *social* responsibility. Nevertheless, as most definitions of both concepts involve features from all the three domains of responsibility (economic, environmental, and social), the terms are used interchangeably in this study. This is also widely done in practice.

APPENDIX 2 – The Case Companies[35]

COMPANY	INDUSTRY[36]	NET SALES (million €)	FROM ABROAD	PERSONNEL[37]	ABROAD
Nokia	Electronics	29 455.0	99%	51 605	57%
Stora Enso	Forest	12 172.3	94%	44 264	67%
Fortum	Energy	11 392.0	59%	13 343	46%
UPM-Kymmene	Forest	9 948.0	89%	35 751	44%
Metsäliitto	Forest	8 318.3	90%	30 065	66%
Nordea Bank Finland	Financial services	7 293.0	Negligible	10 415	6%
Kesko	Retail	7 070.2	12%	15 219	35%
Outokumpu	Metal	5 921.0	59%	21 442	74%
Kone	Metal	5 344.4	90%	34 489	91%
Metso	Metal	4 250.0	91%	27 400	65%

TABLE 5: THE CASE COMPANIES[38]

[35] Ranked according to their net sales (information obtained from official financial statements from 2003).
[36] The industry that constitutes at least 60% of the company's turnover.
[37] The average number of employees in 2003 except for Nordea Bank Finland. This is due to the legal restructuring of the Nordea Group in 2003 in which Nordea AB (publ) acquired Nordea Bank Danmark A/S (NBD), Nordea Bank Norge ASA (NBN) and Nordea Bank Sweden AB (publ) (NBS) from Nordea Bank Finland Plc. The author believes that the number of employees at the end of the year describes better the real situation.
[38] Sources: http://www.talouselama.fi/te500list_eng.te, annual reports of the companies, e-mail discussions with company representatives.

APPENDIX 3 – Interview Guide in English

Name:

Title:

Responsibilities:

Adoption of Codes of Ethics

- Since when does your company have a code of ethics (or social responsibility statements or such)?
- Why was it adopted in the beginning?

Reasons and Aims

- What are the main functions of your code of ethics nowadays, i.e. what are you trying to achieve by using it? Have the functions changed over time?
- Do you think that the reasons and aims for your code of ethics have been clearly defined? Do you state explicitly *why* you are using an ethical code?
- The division in environmental vs. social responsibility: is there a difference in the reasons of adopting ethical principles related to these areas?
- Different issues in the code (depending on the company): reasons and aims?
- Do you take "ethical actions" that are not communicated to the public? Why are they (not) taken? Why are they (not) communicated?

External Influences

- Do you see ethical codes as a must or are they rather voluntary extra? Would it be possible for your company not to have a code of ethics?
- How do you see the degree of pressure from the outside world for using codes of ethics? Do you see any difference between Finland and other countries you operate in?
- Does your international presence affect the need to have a code of ethics? If yes, in what ways?
- What is the role of organisations like Greenpeace and such for your adoption/use of a code of ethics?
- In the past few years several international environmental and social recommendations, programs, certificates etc. have been made public. In your opinion, what is the significance of these to corporate practices and for your company in particular?
- How do you see the effect of industry on the adoption of codes of ethics? Has your industry affected your decision to adopt a code of ethics?
- Have your main competitors adopted codes of ethics? Has it affected your decision to adopt one?

Codes of Ethics and Operational Efficiency

- Social performance is often seen to conflict with economic performance as programs/projects with ethical labels often mean more costs for companies. How do *you* see the relation between ethical considerations and operational efficiency? Do they conflict in practice? If yes, how is this conflict handled in your company (i.e. do you have to do balancing?)?

Future

- How do you see the use of ethical codes evolving in the future both in general and in your company in particular? In Finland vs. internationally?
- Do you think that codes of ethics are here to stay, or are they just a passing trend?

APPENDIX 4 – Interview Guide in Finnish

Nimi:

Titteli:

Vastuualueet:

Eettisten säännöstöjen käyttöönotto

- Mistä lähtien yrityksellänne on ollut eettinen säännöstö/eettiset periaatteet (tai sosiaalisen vastuun raportti, tms.)?
- Miksi sellainen päätettiin tehdä?

Syyt ja tavoitteet

- Mitkä ovat yrityksenne eettisen säännöstön tärkeimmät funktiot, ts. mitä sen avulla halutaan saavuttaa? Ovatko tavoitteet/tehtävät muuttuneet ajan myötä?
- Onko yrityksenne eettisen säännöstön syyt ja tavoitteet mielestänne selkeästi määritelty? Tuotteko yleisesti esiin syyt *miksi* käytätte eettistä säännöstöä?
- Jako ympäristö- ja sosiaaliseen vastuuseen: eroavatko näihin alueisiin liittyvien eettisten säännöstöjen syyt toisistaan? (esim. ovatko ympäristöasiat pääasiassa sääntöjen noudattamista?)
- Eri eettisten säännöstöjen aihealueet (yrityskohtaisesti): syyt ja tavoitteet?
- Onko yrityksellänne ”eettisiä toimia” joista ette kommunikoi julkisesti? Miksi/miksi ei?

Ulkoiset vaikutukset

- Näettekö eettiset säännöstöt välttämättömyytenä vai ovatko ne mielestänne enemmän vapaaehtoista ”ekstraa”? Olisiko yrityksellenne mahdollista olla käyttämättä eettisiä säännöstöjä?
- Millaisena näette ulkoisen ympäristön paineen eettisten säännöstöjen käyttämiselle? Onko Suomen ja muiden maiden (missä yritys toimii) välillä eroa?
- Vaikuttavatko kansainväliset toimintonne tarpeeseen käyttää eettistä säännöstöä? Jos kyllä, miten?
- Mikä on sellaisten organisaatioiden kuin Greenpeace vaikutus eettisten säännöstöjen käyttöönotolle/tarpeelle yrityksessänne?
- Viime vuosina on julkaistu monia kansainvälisiä ohjeistoja, ohjelmia, sertifikaatteja, jne. ympäristö/sosiaaliseen vastuuseen liittyen. Mikä on mielestänne näiden vaikutus yritysten toiminnalle, ja erityisesti omalle yrityksellenne?
- Miten mielestänne teollisuudenala vaikuttaa eettisten säännöstöjen tarpeellisuuteen/käyttöönottoon? Onko teollisuudenalanne vaikuttanut yrityksenne päätökseen ottaa käyttöön eettinen säännöstö?
- Onko tärkeimmillä kilpailijoillanne eettiset säännöstöt? Onko se vaikuttanut yrityksenne päätökseen käyttää eettisiä periaatteita?

Eettiset säännöstöt ja tehokkuus

- Usein sanotaan, että yritysten sosiaalinen ja taloudellinen suoritus ovat ristiriidassa keskenään, koska toimiminen eettisten periaatteiden mukaan aiheuttaa yrityksille usein ylimääräisiä kuluja. Miten *te* näette eettisten toimien ja taloudellisen tehokkuuden välisen suhteen? Ovatko ne mielestänne käytännössä ristiriidassa toistensa kanssa? Jos kyllä, miten tätä ristiriitaa käsitellään yrityksessänne (tasapainottelua asioiden välillä?)?

Tulevaisuus

- Miten uskotte eettisten säännöstöjen käytön kehittyvän tulevaisuudessa, sekä yleisesti että erityisesti omassa yrityksessänne? Entä Suomessa ja maailmalla?
- Uskotteko eettisten säännöstöjen olevan pysyvä ilmiö vai pikemminkin ohimenevä trendi?