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The codes of ethics of S&P/MIB companies: an investigation of their contents and the main factors that influence their adoption

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Abstract

This paper introduces and discusses the initial results of a survey focused on the contents, adoption, role and effectiveness of company codes of ethics.

The paper examines the contents of the codes of ethics of companies operating in the private sector in Italy, quoted on the Italian Stock Exchange (S&P/Mib). The purpose of the investigation was to identify any correlations between sector characteristics and the contents of the codes of ethics, which would enable us to map out the main principles followed in writing the companies' codes of ethics. The analysis was conducted in order to ascertain whether there were common factors deriving from the shared ethical questions faced by the companies operating in the same sector of activity.

As the first step, the 40 companies were subdivided into three main economic categories: Industrial, Financial and Service, according to the relevant Italian Stock Exchange definitions. Then the contents of each code of ethics were evaluated and classified in accordance with different criteria. The main categories of classification were based on: general principles, social

values, rules of conduct, relationships with third parties, implementation and sanctions. As a result, a list of common ethical themes and main characteristics for each sector were identified.

The next objective was to investigate whether these characteristics were due to the regulation of the sector of reference, the existence of sector benchmarks for best practice, or simply companies' voluntary stance on ethical issues.

The main conclusions were that the codes of ethics of the Italian companies that we analysed do not seem to show relevant differences traceable to sector of activity, and their adoption is affected by several reasons other than intentionally ethical considerations.

1 - Introduction

The word *ethics* is derived from the Greek word *ethos*, which means "character", "custom". In common parlance, ethics refers to well-founded standards that prescribe what humans ought to do, usually in terms of rights, obligations, fairness or benefits for society. As a matter of fact ethics permeate human life and all types of decision entail a balancing of divergent values. Thus it is not surprising that ethics have become a central topic among the business community, partially in the light of an increasing interest in Corporate Social Responsibility (CSR). CSR is defined as the responsibility of the firm towards civil society, which refers to human beings and the environment where they live and interact among themselves also, but not only, on an economic basis (Rusconi, 2006).

Nowadays CSR is a topic widely investigated in economics studies. This trend affects, and is affected by in its turn, the increasing number of documents produced by companies in order to both communicate and regulate socially responsible behaviour. Within this large number of documents, environmental reporting, social reporting, codes of conduct and codes of ethics are the most widely adopted.

In particular, the code of ethics is one of the main tools for implementing CSR inside organisations and is an aprioristic way of determining whether organizations have recognised the need for ethical behaviour and established a commitment to that need.

The relationship between a firm's decisions and ethics generates, for the firm itself, the need to define its own line of conduct and its own moral behaviour, which should be translated into a formal document, the code of ethics. This document has to be published both within the firm, to make employees' conduct comply with the social and ethical values stated, and for the outside world, to communicate these shared values.

In fact, the code of ethics is not only an internal instrument, but also a point of reference for relations between the firm and the outside world. The application of these ethical values to the behaviour of the operators inside the firm increases the firm's reputation and improves its image, in order to generate trust on the outside (Zavani, 2000).

But what actually drives firms to adopt a code of ethics? Are we witnessing an epidemic of ethical awareness or are there other reasons underlying this increasing importance ascribed to business ethics in the economic environment?

Carasco and Singh listed at least five business reasons for the growing spread of codes of ethics among the world's firms: the code is a tool "…thought to enhance corporate reputation and brand image"; a way of signalling publicly the firm's commitment to ethical behaviour as a defence in times of crisis, when a company is accused of unethical behaviour; it "can help to create cohesive corporate culture"; it can prevent the imposition of fines and sanctions on the firm adopting it[1]; finally, it is thought that "sound business practices will enhance development prospects in emerging economies in Africa, Asia and Latin America by establishing universal standards which transcend differences in laws and cultures" (Carasco and Singh, 2003 p. 72).

Since codes of ethics can justifiably be viewed as not the result of ethical considerations alone, we decided to examine several codes of ethics in order to evaluate the real purpose of the moral values enunciated, trying at the same time to map out the reasons which guided the drafting of the code itself. In other words, we considered the codes of ethics as the object of our study and content analysis as the tool of the investigation.

The purpose of this research is to examine the contents of codes of ethics of Italian companies operating in different sectors to see if there are different characteristics arising from the sector to which the firm belongs, existing standards, and regulation.

2 - Methodology

This study examines the codes of ethics of 40 companies operating in the private sector in Italy, quoted on the Italian Stock Exchange (S&P/Mib) at March 31st 2006. We chose the S&P Stock Exchange Index because it offers a complete representation of the Italian economic scene.

Initially we retrieved the vast majority of the codes of ethics of these companies via the internet. Subsequently we contacted the person responsible for investor relations within each company which did not make its code of ethics available on its web site. When asked whether their companies adopted a code of ethics, many of them replied by sending us the code adopted

[1] In Italy this reason is particularly significant because of D. lgs. 231/2001, which allows firms to shift administrative responsibility, for an illegal act from the firm itself to the direct offender, through the application of an organizational model aimed at preventing illegal acts committed by employees and directors.

by their companies, while others informed us that they were unaware of the existence of this document.

As a result 29 codes were obtained, representing 34 companies because some companies, belonging to the same group, adopt the same code of ethics (for example Terna belongs to Enel Group and adopts the Enel code of ethics). Of the remaining six, four did not have codes and two replied that their codes of ethics were not public.

The companies' codes were subdivided into three main economic categories: Industrial, Financial and Service, according to the relevant Italian Stock Exchange sub-sector definitions. This division was made by adding together homogeneous subcategories in order to create significant groups within the sample as a whole.

Table 1 - Sample composition

Sector	Number of firms considered in S&P index	Number of firms adopting a code of ethics	Percentages
Finance	17	12	71%
Service	12	11	92%
Industry	11	11	100%

Table 2 - Companies forming the sample

Finance	Service	Industry
6 banks	4 public utilities	1 mineral
4 insurance	5 media	2 electronics
	2 transport	2 fashion
		1 automobile
		1 chemical
		1 construction

The contents of the codes were analysed according to several criteria and grouped under the following main areas suggested by the best practice models which indicate guidelines for the structure of codes of ethics: explicit function of the code as stated in its contents, general principles, social values, relations with third parties, rules of conduct, implementation, sanctions, regulation. In fact a code of ethics generally consists of the levels of content stated here (Zavani, 2000)[2]. The analysis was carried out manually by two people and randomly checked for accuracy.

[2] Actually Zavani lists the following standard categories: general principles; ethical norms regulating firm's relations with stakeholders; ethical behavioural standards; internal sanctions; implementation. Yet we wanted to add two further categories, the code's explicit function and references to Italian regulation, as we consider them meaningful

3 - Results of the Analysis of Contents

Before presenting and analysing the results, we briefly describe the main characteristics of the analysed areas and related categories. The description is based on the common definitions traceable in the twenty-nine codes of ethics investigated. The results are then compiled into tables listing the absolute and percentage figures for actual mention of the item in the companies' codes, subdivided by sector of activity, and the most significant results are analysed.

Finally the complete results are examined in a cross analysis that verifies the correlation between the company's values, the general principles, third parties as defined in the code, and their actual consideration as the subject of the rules of conduct in the code itself.

Explicit function of the code as stated in its contents

The first area considered is "Explicit function of the code as stated in its contents": in other words this area analyses the main purpose of each code of ethics as indicated by the firm in the code itself, usually in the foreword or introduction. We found that the various functions stated in different codes of ethics can be subdivided into four further categories: the function of *preserving the firm's good image and reputation*; the function of *preventing illegal behaviour*; and the function of *making the firm's values explicit*; in conclusion, we also consider those *firms which did not explicitly state the function* of their codes of ethics. To a certain extent, the first potential function of a code of ethics can be considered as directed more toward the external environment since the image and the reputation of a firm basically derive from the idea that stakeholders and the community in general have about it. In contrast, the second function is directed more toward the firm's internal organisation, since it represents a warning with regard to employees' behaviour, in order to ensure that the firm functions correctly.

Table 3 – Explicit function of the code as stated in its content

Area of analysis	Finance		Service		Industry		Total	
Explicit function of the code as stated in its contents								
1. Preservation of the firm's image and reputation	4	40%	5	45%	1	12%	10	34%
2. Prevention of illegal behaviour	2	20%	2	18%	1	12%	5	17%
3. Making the firm's values explicit	5	50%	5	45%	5	62%	15	52%
4. Absent	1	10%	3	27%	1	12%	5	17%

for the purposes of our analysis. In fact the former states the firm's purpose in writing the code; while the latter refers to the aforesaid Italian law, D. lgs. 231/2001.

Finally, the third function can be considered as a mix of the other two, because the action of making the firm's values explicit has consequences both for the public vision of the firm and in the area of employees' ethical conduct.

We found that, across the three sectors, the most widespread code function was "making the firm's values explicit" (52% on average), in comparison with the function of "preserving the firm's image and reputation" (34% on average) and the least-mentioned aim of "preventing illegal behaviour" (17% on average). Remembering that the code function of "making the firm's values explicit" can be considered as directed toward both the inside and the outside of the firm, we decided to analyse the further correlations which appeared in the individual sectors, in order to identify the dominant code purpose within each. We found that the percentage for the function of "preserving the firm's image and reputation" was higher in the financial (40%) and service (45%) sectors than in the industrial sector (12%). In light of this consideration, it appears that the only purpose of codes of ethics in the industrial sector is to provide a statement of firms' values, with the double meaning already referred to above, while the service and financial sectors shift their attention more toward the side of external communication, with a desire to improve firms' image through their codes of ethics.

In conclusion, the generally low percentage scored by "preventing illegal behaviour" may mean that codes of ethics are generally considered more as tools of external communication than as regulatory tools.

General principles

The second area investigated is "General principles". By this expression we refer to all the general ethical principles which guide the firm in its operations. Therefore, from each code we extracted the broadest principles which inspire, or should inspire, all action taken by the members of Board of Directors, managers and employees. We identified five categories of general principles most widely found in codes' contents: *compliance with the law and regulations*, meaning strict adherence to the regulations governing the economic sphere in general and the specified business sector in particular; *honesty*, a general concept which refers to moral and subjective values rather than to written and objective laws; *transparency*, a general line of conduct which should guide the firm's communication, both external toward stakeholders and internal toward all people who work in or for the firm, and economic and financial information provided to the market, investors and the general public; *impartiality and independence in decision making*, a principle which is fulfilled in a decision-making process totally unaffected by prejudices or reasons not compatible with the legitimate interests of the firm's customers, employees, shareholders, commercial and financial partners and the communities where the firm is present; and *integrity*, interpretable as the idea that economic profit is a necessary condition for the firm's freedom and durability, but must not be created at the price of incorrect behaviour toward employees, clients, suppliers, investors, competitors and the general community.

In the financial sector an objective principle such as compliance with the law and regulations (30%) is less widespread than subjective principles such as honesty (80%) and integrity (90%). It appears that the financial sector pays more attention to honesty and integrity because these principles are considered the cornerstones of businesses like banking and insurance. While transparency is a principle equally present in all sectors, we notice a predominance of subjective over objective principles even in the service and industrial sectors, although the difference appears less significant than in the financial sector.

Table 4 – General principles

Area of analysis	Finance		Service		Industry		Total	
General principles								
1. Compliance with the law and regulations	3	30%	8	73%	5	62%	16	55%
2. Honesty	8	80%	11	100%	6	75%	25	86%
3. Transparency, true and complete reporting, communication and bookkeeping	7	70%	8	73%	6	75%	21	72%
4. Impartiality and independence in decision making	4	40%	5	45%	4	50%	13	45%
5. Integrity	9	90%	8	73%	7	87%	24	83%

Social values

The third macro area that we analyse is "Social values", the values shared by the entire company, which enable it to obtain the approval of society as a whole. We identified the values most widely mentioned in codes' contents (and thus the values which are most accepted, acknowledged and shared by the firms that we studied). First on our list was *customer focus*, meaning that the customer should inspire all the firm's actions, making the quality of products and services offered externally a result of the input of all business functions, and meaning that everything the company does should have a return visible on the outside. Next, a *trust-based relationship between the firm and stakeholders*: in other words, stakeholders of various kinds must have trust in the firm's actions and their economic relations with it, as a precondition for its successful operation; *observance of social responsibility*, where social responsibility means the firm's commitment to social development with regard to all its stakeholders, in the belief that the capacity for dialogue and interaction with civil society constitutes an important asset for the company; *protection of the environment*, meaning a concept of the environment as a public asset of intrinsic value, which has be protected against the environmental impact of economic activities; and finally *the importance of the human factor in the running of the firm*, represented as the attention paid by the directors of a firm to its staff.

Customer focus is a social value given a particularly high degree of consideration in the service (55%) and financial sectors (40%) while in the industrial sector its score is considerably lower (25%). We may explain this difference by looking at the diverse nature of what is produced in the different sectors; the greater the intangibility the greater the customer focus.

Another major difference regards the particular attention paid by the financial sector (60%) to a trust-based relationship between the firm and its stakeholders. In contrast, this social value is completely absent in the industrial sector (0%). These results, that showing a greater emphasis on trust in financial operations, may be traced back to the comments made concerning general principles, since trust may be built up through honesty and integrity.

Table 5 – Social values

Area of analysis	Finance		Service		Industry		Total	
Social values								
1. Customer focus	4	40%	6	55%	2	25%	12	41%
2. Trust-based relationship between the firm and stakeholders based on trust	6	60%	4	36%	0	0%	10	34%
3. Observance of social responsibility	8	80%	3	27%	4	50%	15	52%
4. Protection of the environment	4	40%	8	73%	6	75%	18	62%
5. The importance of the human factor in the running of the firm	7	70%	9	82%	4	50%	20	69%

The observance of social responsibility turns out to be particularly significant in the financial sector (80%). One possible explanation might be found in the attempt of firms operating in this sector to compensate for the peculiarities of their business, which is sometimes viewed as ethically dubious, by a higher degree of attention to social responsibility.

Firms operating in the service (73%) and industrial (75%) sectors are more involved in environmental protection. It seems to us that this greater attention to the environment is justified by the major impact that these companies' operations have in areas such as pollution and the use of natural resources.

The importance of the human factor in the running of the firm receives most consideration in sectors like service (82%) and finance (70%). This confirms the centrality of human resources in intangible businesses requiring higher qualifications and more attention to interpersonal relations.

Relations with third parties

The other category investigated is “Relations with third parties” where we list several actors among the firm’s stakeholders whose interests should be taken into account in its actions: *employees*, *customers*, *suppliers*, *shareholders*, *government authorities*, *mass media*, *political organisations*, *antitrust authorities*, *the community*.

The figures reveal that attention to employees and customers is very high in all three sectors. This also applies to suppliers in the service (100%) and industrial (100%) sectors, but attention to them is lower for the financial sector (50%). This may be explained by the fact that financial businesses do not have suppliers as such, unlike industrial and service sector processes.

Table 6 – Relations with third parties

Area of analysis	Finance		Service		Industry		Total	
Relations with third parties								
1. Employees	9	90%	11	100%	8	100%	28	97%
2. Customers	8	80%	11	100%	8	100%	27	93%
3. Suppliers	5	50%	11	100%	8	100%	24	83%
4. Shareholders	3	30%	8	73%	2	25%	13	45%
5. Government authorities	8	80%	11	100%	8	100%	27	93%
6. Mass Media	4	40%	4	36%	5	62%	13	45%
7. Political organisation	9	90%	8	73%	8	100%	25	86%
8. Antitrust authorities	4	40%	5	45%	3	37%	12	41%
9. Community	4	40%	7	64%	3	37%	14	48%

A difference emerges when we analyse relations with shareholders in the service sector (73%). The reason for this is not too clear, since shareholders should be important for all the companies considered, so we conducted a further, closer investigation into the companies which generated this finding.

Examining the details of the companies in the three sectors which considered the shareholder as an important third party, it emerged that in the industrial sector 1 out of the 2, in the finance sector 3 out of the 3, and in the service sector 5 out of the 8 companies, were firms with a majority of shares in the hands of a small number of shareholders. In firms with this kind of organisation, minority shareholders are generally less important in decision-making. If the minority should disagree with the decisions of the majority, there is not normally anything firms can do about it. However, the law does provide certain protection for the interests of the minority, although it is actually quite difficult and potentially very expensive to implement this. Stating the company’s attention to minority shareholders’ rights in its ethical issues may be an alternative way of enforcing minority rights.

Relations with government authorities and political organisations are present with a high percentage in all sectors, with no significant differences among them. This is due to the widespread commitment to preventing involvement in corruption with government authorities and political organisations.

Rules of conduct

We then moved on to analyse a fifth macro area, "Rules of conduct", which give more concrete expression to the ideal principles and values of business in more specific lines of conduct and examples of actions which staff must or must not undertake. They represent a link between principles, values and stakeholders. The first category is *corruption*, divided into bribes accepted by an employee and bribes offered by employees themselves, especially to government authorities, in order to obtain illegal favours. The second field in which we find several lines of conduct is *information*: these lines of conduct include behaviour concerning the handling of important information not in the public domain, obtained because of the individual's position within the firm, such as price sensitive information or private information relating to customers; rules of conduct about external communication toward shareholders, the mass media, customers, government authorities and towards the public in general, and last but not least behaviour concerning internal communication toward employees. Then there are various rules of conduct concerning *human resources*: specifically, rules about harassment in the workplace; rules about giving equal opportunities to all employees; rules about transparency in the management of human resources, meaning the provision of clear information about career structures and definitions of the rules and responsibilities for all posts within the firm; and rules about the development of employees' skills and abilities through training so that their energy and creativity can find full expression for the fulfilment of their potential. We also find several rules against *conflicts of interest*, such as the economic and financial interest of an employee and/or his family in the activities of suppliers, customers and competitors.

Another field regulated by ethical norms is *bookkeeping information*, which should be transparent, true and complete. One further sector is *fair competition* in the production of products or the provision of services and also in terms of respect for market rules and competitors. Last but not least, an area which generates several rules of conduct: *behaviour with regard to social responsibility and the environment*. These are all concrete actions which the firm would like to put into practice in order to fulfil its duties toward human society and the environment. The reference to the values of environmental protection and the observance of social responsibility, already discussed above, is clear.

Table 7 – Rules of conduct

Area of analysis	Finance		Service		Industry		Total	
Rules of conduct								
1. Corruption	8	80%	9	82%	8	100%	25	86%
2. Information	10	100%	10	91%	8	100%	28	97%
3. Human recourses	8	80%	10	91%	7	87%	25	86%
4. Conflict of interests	8	80%	9	82%	8	100%	25	86%
5. Transparency, true and complete bookkeeping	5	50%	8	73%	8	100%	21	72%
6. Fair competition	4	40%	6	54%	5	62%	15	52%
7. Behaviour in observance of social responsibility and environment	1	10%	8	73%	6	75%	15	52%

The categories of *information* and *human resources* are two categories in which different ethical aspects are included and therefore different subjects are involved. For this reason, our cross analysis includes a further investigation of the rules of conduct with regard to information and human resources.

First of all, we found that the percentage of rules of conduct concerning corruption is generally high in all three sectors (Finance 80%; Service 82%; Industry 100%). This may be as a result of the Italian law on the administrative responsibility of the firm, D.lgs. 231/2001, which expressly refers to the criminal offence of bribery (item number 25).

Therefore the high level of reference to this subject across the three sectors may derive both from the fact that corruption is seen as one of the most serious forms of unethical behaviour, and from firms' response to Italian legislation.

Another finding which may be due to Italian law is the high percentage of rules of conduct concerning conflicts of interest (Finance 80%; Service 82%; Industry 100%). As mentioned in note number one, Italian Law D.lgs 231/2001 allows firms to shift administrative responsibility for an illegal act from the firm itself to the direct offender, through the application of an organisational model aimed at preventing the commission of illegal acts by employees and directors.

Envisaging this possibility, the Law states that the firm is not legally responsible for illegal acts committed by members of the firm acting to pursue their own interests (item number 5). Stating that the firm condemns such acts may be a preventive means of shifting the firm's responsibility onto the single guilty person.

Turning to rules of conduct focusing on "Transparency, true and complete bookkeeping" we found that they received more mention in the industrial sector (62%) than in the service (54%) and financial (40%) sectors. The reason for this finding may be the larger number of external regulations and controls with regard to accounting activities in the financial field. Since this sector is the subject of more external regulation, it does not need to set internal rules of conduct concerning accounting practices.

This explanation is also supported by the fairly high percentage of financial codes of ethics which refer to "transparency, true and complete reporting, communication and bookkeeping" as a general principle (70%). In other words, the financial sector considers transparency and true and complete bookkeeping as a general principle, which does not need to be expressed in rules of conduct, given the external regulation concerning this topic.

With reference to rules that consider firms' actions with regard to fair competition, the lower level of consideration of this rule in the financial sector (40%) is worthy of note.

This difference may be due to the oligopoly in the Italian financial sector, which allows the establishment of special forms of relationship among the firms on this market.

The high percentages of rules concerning human society and the environment found in the industrial (75%) and service (73%) sectors confirm the straight correlation between these firms' operations and social and environmental resources. This correlation was also noticed in the analysis of the *social values* regarding the *protection of the environment* and *observance of social responsibility*.

Implementation

The sixth macro sector that we analyse is "Implementation", or how the code of ethics is put into practice. First of all we find that several codes establish *control functions* which basically supervise the correct implementation of the code of ethics through different actions, from laying down criteria and procedures aimed at reducing the risk of violations of the code, to investigating reports of any violation by initiating proper inquiry procedures.

Another way of implementing codes of ethics can be found in *provisions for reporting by employees, with prevention of retaliation against whistle-blowers,* in order to prevent silence due to fear.

Finally, we also consider all those firms that *do not mention any measures for implementation* of the code, especially the ones which provide neither a control function or nor a system for employee reporting.

We found a certain degree of correlation between this area and the next one, concerning the sanctions considered by each code of ethics. In fact sanctions can be seen as the direct consequence of implementation since, for example, one of the main duties of control functions is to apply sanctions in the case of violation of the code of conduct. Therefore we decided to analyse these two areas together.

Table 8 - Implementation

Area of analysis	Finance		Service		Industry		Total	
Implementation								
1. Control functions	6	60%	6	54%	7	87%	19	65%
2. Employee reporting, with prevention of retaliation against whistle-blowers	7	70%	7	64%	6	75%	20	69%
3. No employee reporting or control function envisaged	2	20%	2	18%	2	25%	6	21%

Sanctions

The seventh macro category we consider is "Sanctions", i.e. the measures applied by the firm in order to punish and prevent illegal acts by employees. The most widely mentioned sanctions are: *disciplinary sanctions*, in other words sanctions included in contracts or established by the firm's internal code of behaviour; *termination of contract*, i.e. the ending of the economic relationship with the employee or the external partner or supplier who has committed a fairly serious illegal act; and *compensation*, i.e. the payment by the offender of economic compensation for damage caused to the firm by the illegal act committed. In conclusion, we also consider the firms which *do not refer to specific or internal sanctions* in their codes of ethics, referring basically to the ordinary legislation on this subject.

Table 9 - Sanctions

Area of analysis	Finance		Service		Industry		Total	
Sanctions								
1. Disciplinary sanctions	6	60%	6	54%	5	62%	17	59%
2. Termination of contract	5	50%	7	64%	4	50%	16	55%
3. Compensation	4	40%	6	54%	2	25%	12	41%
4. No specific sanctions	3	30%	2	18%	0	0%	5	17%

Among our findings was a higher rate of presence of control functions in the industrial sector (87%) than in the financial (60%) and service (54%) sectors. Moreover, although the differences are less accentuated, the possibility for employees to report any known violation of the code is also slightly higher in the industrial sector (75%) than in the financial sector (70%) and the service sector (64%). On the other hand, the incidence of total absence of both employee reporting and control functions is low across all sectors, so it appears that in all cases some kind of internal control procedures do generally exist. However, we would like to focus our attention on the presence of control functions, the most explicit expression of formally structured internal control. Comparing the data for "Implementation" with those for "Sanctions", we found some correlations. First of all, the link between the high percentage of control functions and the total absence of non-specific regulations in the industrial sector (0%) should be highlighted. This correlation could mean that a sector with widespread adoption of internal control functions usually applies specific sanctions, in other words sanctions which are set inside the firm itself. Conversely, those sectors which do not provide such a high percentage of control functions are more likely to adopt non- specific sanctions, since these sectors tend to rely on general, external regulations.

Yet the incidence of the three different types of sanctions in codes of ethics is more or less the same across the three different sectors if we omit the "compensation" category, which is considerably lower in the industrial sector (25%) than the service (54%) and the financial sectors (40%). In the light of these results it is worth pointing out that the industrial sector is less externally regulated, from the point of view of ethics, than the other two sectors. In this sector most Italian regulations concern product quality, or the achievement of official certification with regard to the manufacturing process, and not ethical behaviour. Therefore the industrial sector compensates for this lack of external ethical regulation by adopting internal control functions which set and apply specific sanctions. These specific sanctions are also imposed in the other two sectors, but not by an internal authority set up specifically for this purpose. In conclusion, the service and financial sectors seem to be subject to a larger amount of ethical regulation (the Italian law on saving in the financial sector, for instance) so they do not need to compensate for any shortfalls by means of an internal ethical control authority.

Regulations

In conclusion, we analysed the presence of *Italian regulations* in codes of ethics, in other words we conducted a search for specific references to current laws regarding business ethics or lines of behaviour for employees. The main laws considered are: *D.lgs 231/2001*, the Italian law on the administrative responsibility of the firm and the first law which introduces the idea of codes of conduct for the regulation of employees' conduct; the *Italian civil code*, especially some articles concerning the duties and rights of workers; the *code of self regulation* introduced by the Consob, the Italian national stock exchange regulator, which is basically about corporate governance within firms; and references to *regulations in general*, meaning regulations not specifically relating to business ethics or corporate governance.

The clear reference to regulations in the codes' contents, even when the reference is not to any specific regulation in particular, reveals that the relevant regulations have been taken into consideration when drafting the codes of ethics.

Table 10 - Regulations

Area of analysis	Finance		Service		Industry		Total	
Regulations								
1. Italian Civil Code	4	40%	6	54%	1	12%	11	38%
2. CONSOB Self Regulation Code	3	30%	5	45%	2	25%	10	34%
3. Unspecified regulation	3	30%	2	18%	3	37%	8	28%

Although the distribution of references to each type of regulation across sectors is virtually uniform, the low percentages of such references in the industrial sector confirm the earlier hypothesis concerning the lower degree of external regulation in this sector.

4 - Cross Analysis

A code of ethics, to be effective, must contain values and principles shared and followed by all a company's employees as well as by various categories of stakeholders connected to a firm's operations. In order to assess whether codes of ethics influence behaviour within corporations, several studies (Mathews, 1987; Adams *et all*, 2001; Somers, 2001) have compared the behaviour of corporations possessing such codes to that of corporations without codes. However, the adoption of company codes of ethics in Italy is a recent phenomenon, and thus evaluation of compliance may be premature. That is the reason why a cross analysis of content may provide a means of verifying the effects of codes' values and principles on actual behaviour. This analysis aims to test the coherence between what is proclaimed to be the ethical path to be followed and what is operatively provided by the rules of conduct in the codes of ethics' contents.

The cross analysis consists of a comparison between the "General Principles", "Company Values" and "Third Parties" stated in the codes' contents and their treatment as the subjects of rules of conduct. This analysis is done considering the entire sample, not the findings by sector, in order to identify what firms really intend to achieve by their decision to define these principles, values and stakeholders rather than other ethics-related concepts. As already mentioned, "Rules of conduct" give concrete expression to the ideal principles and values of business, by specifying lines of conduct and examples of actions which staff must or must not undertake. So if the company has a real commitment in setting out its own ethical principles and values, there will also be a clear definition of the people on whom these principles and values are imposed. Above all, these principles and values should serve as inspiration for the actions of stakeholders, and to communicate the firm's position concerning a variety of ethical dilemmas facing it. That is why once ethical principles and values have been stated, rules for acting in compliance with them throughout the whole range of stakeholders' operations must be established in order to give them real expression.

In order to ascertain the degree of voluntary commitment behind the drafting of codes of ethics, we examined the correlations between the main general principles, values and stakeholders, emerging from the contents of the codes of ethics, and the categories of rules relating to those same ethical issues. For our cross analysis, we chose links between these two categories traceable on a common-sense basis. In other words, when identifying linkages we gave precedence to connections which were widely and commonly accepted, in order to reduce the subjectivity of the analysis.

The following significant results emerged from the cross analysis:

Table 11 - Rules of contact of the entire sample

Corruption 86% →	- of employees 76% - toward public institutions 62%
Information 96% →	- confidentiality of firm's information 97% - external communication 34% - internal communication 21%
Human resources 86% →	- harassment in the workplace 28% - equal opportunities 34% - clear administration of human resources 62% - development of employees' skills and abilities 45%

- Conflict of interest 86%

- Transparency, true and complete bookkeeping 72%

- Fair competition 52%

- Practical compliance with social responsibility and environment 52%

The two general principles which recurred most often in the sample were *honesty* (86% of total codes considered), and *integrity* (83%). We link honesty to rules of conduct concerning the condemnation of *corruption*, one of the most serious forms of dishonesty, and *fair competition*, as the expression of honesty in the competitive market. Then we link the second principle, *integrity*, to rules of behaviour regarding *communication*, both *external* and *internal*, the means of preventing the shabby practice of concealment, and to norms of conduct about the *clear administration of human resources*, the expression of a correct attitude to employees' careers and role.

The correlation of *honesty* with the "Rules of Conduct" revealed that it features a great deal in rules on the subject of corruption, covered by 86% of codes, but *fair competition*, considered as honest corporate behaviour on markets and toward competitors, only appears in 52% of codes.

Integrity, reflected in the genuine communication of accurate information to all the parties interested in firms' decisions and operations, such as employees, customers, suppliers, investors, competitors and the general community, is not extensively enforced through rules regarding *external communication* (customers, investors, competitors and the general community) and 34%, *internal communication* 21% (employees, suppliers).

The social values emerging from the data analysis were *environmental protection* 62% and *the importance of the human factor in the running of the firm* 69%.

The importance of the human factor in the running of the firm can be translated as the attention paid in the drafting of a firm's rules of conduct to the staff working for the firm itself. In the sample examined, the emphasis on the categories correlated to this area is quite low. A specific rule concerning *the development of employees' skills and abilities* is present in only 45% of codes, *equal opportunities* 34% and *harassment in the workplace* 28%, while a general rule covering *the clear administration of human resources* features in 62% of codes.

Examining the "conversion" of the environmental questions into rules of conduct, only 52% of the codes considered contained concrete actions which the firm announced its intention to take in order to fulfil its duties toward human society and the environment.

The third parties considered in the sample's codes embraced all stakeholder categories, but the rules of conduct in the codes placed more emphasis on stakeholders' behaviour toward the firm than the firm's conduct in relation to its stakeholders. For example, with reference to employees (considered in 97% of codes), there were several rules setting sanctions for acts of *bribery accepted by an employee* 76%. Similarly, rules concerning the *confidentiality of corporate information*, such as the economic and financial consequences for the firm deriving from the handling of important information not in the public domain and obtained because of the individual's position at the firm, (or price sensitive information or customers' private information) were included in 97% of the codes, but only 20% of codes of ethics dealt with the firms' own behaviour in the area of internal communication to their employees.

More specifically, internal communication could be seen as an obligation on the firm, and a sign of its integrity in its relations with employees and internal staff, since it is a means of creating internal cohesion and clearly defining the various relationships the firm establishes with its employees. This finding, revealing that firms take little interest in internal communication, could highlight not just a lack of coherence between general principles and the consequent rules of conduct, but also the fact that the codes of ethics analysed do not aim to create an internal connection between employees and the firm, since the codes do not refer to internal communication, the main tool for the involvement of personnel in the corporate mission.

There are several categories of stakeholder categories considered as third parties for the firm (customers, shareholders, government authorities, mass media, etc.) but their level of coverage in the rules of conduct is low. Thus, rules regarding *external communication* toward shareholders, mass media, customers, government authorities and society in general appear in just 34% of cases.

5 - Conclusion

The codes of ethics of the Italian companies that we analysed have shown that the number of common factors deriving from shared ethical questions traceable to a shared sector of activity is not very high.

From the cross analysis, performed on the entire sample, we noticed a gap between the statement of firms' ethical principles and values and their conversion into ethical rules of conduct. That may be interpreted as a confirmation of the fact that codes of ethics are, as already stated, more oriented towards external communication, rather than intended as a formal document which helps to guide employee and corporate behaviour.

A number of key issues emerged from our sector-by-sector analysis:

- the function of the codes is more to communicate firms' positions on ethical questions toward external partners than to implement CSR inside organisations;
- the social values stated seem to be affected by sectorial characteristics; we could infer that in their decision to concentrate on some social values rather than others, companies are choosing the ethical problems best suited to obtain the consensus of a specific part of society, most sensitive to those issues;
- greater attention is paid to internal regulation and sanctions in the industrial sector than the financial and service sectors. One possible explanation may lie in the different ways the various sectors are regulated and the structure of the regulations themselves;
- a clear reference to Italian legislation was found in all the various sectors.

All things considered we may affirm that the adoption of codes of ethics is affected by several reasons other than intentionally ethical considerations. We believe that the complexity of ethical issues means that a more thorough investigation of the risks to which firms are most exposed is required, in order to allow their control and prevention. One interesting topic for further research may be the study of the risks present in each sector and how their prevention is actually considered in the codes of ethics.

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