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HUMAN RESOURCE MANAGEMENT**  
Integrating People, Process, and Context

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**PAUL R. SPARROW**

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## The Role of IHRM in the Formulation and Implementation of Ethics Programs in Multinational Enterprises

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ABIHIJEET VADERA AND RUTH AGUILERA

### INTRODUCTION

Organizations across the globe are implementing ethics programs but with mixed results. This issue becomes more complex for multinational enterprises operating in several different economies simultaneously. In this chapter, we review the literature on ethics programs in the US and the international context to suggest ways of better understanding the role of international human resource management (IHRM) in the success of ethics programs in multinationals. We propose that the ethics programs should be fully integrated with the human resource practices for their successful formulation, designing in terms of content, and communication of ethics programs. We also suggest that this integration should be examined along with institutional, industry- and country-level, and organizational forces affecting the success of ethics programs to garner a holistic view of the role of IHRM in the formulation and implementation of ethics programs in multinational enterprises.

According to the 2005 National Business Ethics Survey, more than half of the American workers have observed at least one type of ethical misconduct in the workplace, but only 55% of these employees reported it to the management, despite an increase in workers' awareness of formal ethics programs in their organizations. The ethics programs adopted by organizations include written standards of conduct, training on ethics, mechanisms to seek ethics advice or information, means to report misconduct anonymously, discipline of employees who violate ethical standards, and evaluation of employees' performance based on ethical conduct.

Additionally, five of these six elements of formal ethics and compliance programs, as suggested by the Federal Sentencing Guidelines for Organizations, increased in 2003 consistently from 1994. Research also suggests that most of these initiatives have been placed under the responsibility of ethics or compliance departments, ethics officers, general counsels of organizations, or even corporate communications and corporate secretaries in some cases (Weaver *et al.*, 1999b). Largely missing from this listing is the role of human resources policies and practices in the formulation and successful implementation of ethics programs in organizations (Weaver and Trevino, 2001).

In this chapter, we suggest that for the above-mentioned statistics to drastically improve, organizations need to orient their human resource practices and systems to embrace ethics programs of various kinds. We particularly focus on multinational companies (MNCs) due to the recent increase in their numbers as a result of globalization. We define MNCs as “any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise” (Sundaram and Black, 1992: 773). The increase in MNCs necessitates the understanding of cultural and national differences in how organizations grasp the:

- (1) formulation,
- (2) content,
- (3) communication of, and
- (4) effectiveness of ethics programs.

We therefore review extensively the literature on ethics programs in the US and the international context against these four criteria, with key studies summarized in Table 20.1. We then propose two major ways through which scholars and researchers can study the role of International Human Resource Management (IHRM) in the formulation and implementation of ethics programs in corporations operating in the international context.

### ETHICS PROGRAMS IN ORGANIZATIONS

Prior research on ethics programs in organizations primarily looks at the formulation, content, communication, and effectiveness of ethics programs. As noted, organizations adopt ethics programs in various forms. Some organizations may adopt a code of ethics and ensure that all organizational members understand and follow these codes. On the other hand, other organizations may circulate codes of ethics without explaining the content or communicating the importance of the codes to its members. Similarly, ethics training may range from filling out short surveys online to intense workshops with regular feedback and counseling. Therefore, organizations differ largely on how they form, design, and communicate ethics programs.

Below, we review the literature on each of these dimensions to put forth the current state of research on ethics programs. In brief, research on the formulation of

TABLE 20.1 Current research on ethics programs.

Reference	Key concepts	Key predictions and findings	Method and sample
Bailey and Spicer (2007)	National identity; international business ethics; integrative social contracts theory	Russian and American respondents expressed similar attitudes toward organizational practices that violated the ethical standards of “hypernorms” and “local norms”.	Experimental data from 1998 until 2001, using the same six survey scenarios and procedures, but different respondent samples.
Brenner (1992)	Corporate ethics programs and its dimensions; founder values; competitive pressures; and leadership	Defines corporate ethics programs, provides a set of dimensions which would allow categorization of ethics programs and their components, and examines a variety of influences on such programs.	Propositions based on a case study
Farrell and Farrell (1998)	Corporate code of ethics; grammatical structures; Australia	The codes in Australia use language that adopts an authoritarian tone and communicate a strong sense of obligation and powerlessness.	Five international companies—a chemical manufacturing company and a health, beauty and medical manufacturer; Australian bank; an Australian federal government business agency; and an Australian mining company.

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TABLE 20.1 (Continued)

Reference	Key concepts	Key predictions and findings	Method and sample
Felo (2001)	Ethics programs; board composition; insider participation on compensation committees; and director compensation practices	Firms with ethics programs have a lower percentage of inside directors, have more independent boards, and compensate outside directors with equity.	137 firms included in the 1995–1996 AIMR Annual Review of Corporate Reporting Practices
Jackson (2000)	Management ethics; corporate policies; cross-cultures	The clarity of corporate policy has little influence on managers' reported ethical decision making and the perceived behavior of managers' colleagues is far more important in predicting attitudes toward decision making of managers across the nationalities surveyed.	Managers in France, Germany, Britain, Spain and the USA working in over 200 companies operating in these countries.
Langlois and Schlegelmilch (1990)	Corporate codes of ethics; national character; Europe; United States	There exist significant differences between European countries and also between firms in Europe and the United States, in particular with regard to employee conduct, supplier and contractor relations as well as political interests.	The data were collected during 1988 via 600 mail questionnaires dispatched to the chairmen of the 200 largest French, British and West German companies, respectively.
McKendall <i>et al.</i> (2002)	Ethical compliance programs; corporate illegality; corporate sentencing guidelines	Ethical compliance programs do not lessen legal violations. Instead, ethics programs may serve as "window dressing" to deflect attention and or culpability resulting from illegal actions. Lower firm profitability results in a greater number of willful and repeat OSHA violations.	Surveys were sent to 315 companies with responses from 108- return rate of 34%. The number of OSHA violations was obtained by searching the Enforcement Action Data Base that is maintained by OSHA and available through their web site.
Melé <i>et al.</i> (2006)	Corporate ethical policies; corporate ethics statements; Argentina; Brazil; Spain	The primary responsibility for ethical issues in the company rests with the CEO and the main differences between the countries concern the emphasis given to specific aspects, such as avoiding misconduct or taking ethical criteria into account when selecting personnel.	In Spain, the questionnaire was sent to 500 companies (with responses from 106), in Argentina the survey covers the 555 largest Argentinean commercial companies ranked by number of employees (with responses from 126), and the 500 largest in Brazil (with responses from 100).
Montoya and Richard (1994)	Code of ethics; Health Care facilities; Energy utilities	Neither the Health Care facilities nor Energy companies has encountered much success with a codes of ethics program and the ways in the codes are communicated is highly related to the priority given to it in the organization.	The sample consists of 10 energy companies and 10 health care facilities all located in a large metropolitan area in the Southwest, USA. Data were collected over a four-week period through ethnographic interviews.

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TABLE 20.1 (Continued)

Reference	Key concepts	Key predictions and findings	Method and sample
Nijhof <i>et al.</i> (2000)	Ethics programs; ethical decision making	There exist two alternative ways – monological and dialogical approaches – of stimulating responsible behavior in the organization.	
Palazzo (2002)	Business ethics; US-American companies; German companies; national cultures	Although many US corporations have introduced formal business ethics programs, German companies are very reluctant to address normative questions publicly due to different cultural backgrounds.	
Pelletier and Bligh (2006)	Perceptions of ethics programs; public sector organization; leadership	The perceived importance of awareness of formal ethics codes, decision-making techniques, availability of resources and ethical leadership theorized to be critical for ethics program effectiveness were examined.	The sample was randomly selected from a total of 1000 employees (with 458 responses) in a southern California government agency to participate in the survey process.
Robertson and Schlegelmilch (1993)	Institutionalization of ethics; United States; Great Britain	There exist some important differences between US and UK firms in perceptions of what are important ethical issues, in the means used to communicate ethics policies, and in the issues addressed in ethics policies and employee training.	Of the 3481 questionnaires mailed in the US and UK, 860 were returned, yielding a response of 25%.
Singh (2006)	Content of code of ethics; Canada	In 2003, as in 1992, more of the codes of conduct in Canadian firms were concerned with conduct against the firm than with conduct on behalf of the firm. However, there were a significant increase in the frequency of mention of environmental affairs, legal responsibility as the basis of codes and enforcement/compliance procedures.	A total of 80 codes, representing a broad cross section of Canada's largest firms, were analysed for 2003 and 75 for 1992.

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TABLE 20.1 (Continued)

Reference	Key concepts	Key predictions and findings	Method and sample
Singh <i>et al.</i> (2005)	Content of codes of ethics; Australia; Canada; Sweden	The contents of the Australian and Canadian codes were similar, but the contents of the Swedish codes were found to be very different from the Australian and Canadian codes in some areas, reflecting the cultural differences between Sweden and the other two countries.	490 Canadian, 125 Australian, and 74 Swedish surveys were used.
Snell <i>et al.</i> (1999)	Code of ethics; Hong Kong; moral climate of adopters	In Hong Kong, content analysis of codes of ethics suggests that the prime motive was corporate self-defense and companies appear to have imposed their codes top-down, emphasizing disciplinary procedures rather than ethics training, and appointing neither ethics counsellors nor ombuds-people.	The research involved questionnaire surveys, longitudinal questionnaire-based assessments, interviews, and content analysis of company codes of conduct.
Stevens <i>et al.</i> (2005)	Ethics codes; Financial decision-making	Pressures from stakeholders, belief of positive external image, and integration of ethics programs into daily activities of the company influences financial executives to integrate company's ethics codes into their strategic decision-making.	414 firms were randomly selected from the Fortune 1000 and those firms that were smaller, and an equal number from manufacturing and service sectors.
Trevino and Weaver (2001)	Organizational justice; ethics program "follow-through"; employees' behaviors	Employees' perceptions of general organizational justice, and their perceptions of ethics program follow-through, in relation to unethical behaviour that harms the organization, and to employees' willingness to help the organization by reporting ethical problems and issues to management are considered. The reasons why individual companies or clubs in the global sporting goods industry adopted were investigated.	A survey of ethics/compliance management in four companies: a utility company, a telecommunications company, and two energy-related companies. The response rate was 29%.
Tulder and Kolk (2001)	Corporate ethics; multinationality; Sporting goods industry	The reasons why individual companies or clubs in the global sporting goods industry adopted were investigated.	60 codes of firms belonging to the 1997 global Fortune 500 ranking were adopted—approximately 30% of which were from European firms

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TABLE 20.1 (Continued)

Reference	Key concepts	Key predictions and findings	Method and sample
Weaver and Trevino (2001)	Ethics programs orientations; employees' attitudes and behaviors	This field survey in a large financial services company investigates the relationships of the values and compliance orientations in an ethics program to a diverse set of outcomes such as commitment, integrity, etc.	A survey of employees in a financial services company in which four hundred and twenty employees responded, for a 21% response rate.
Weaver and Trevino (2001)	Ethics/compliance management; human resources; fairness	Relying on research on fairness in organizations and corporate ethics practices, the article explains why the extensive involvement of HR in corporate ethics programs is important to the perceived fairness, and thus the likely outcomes, of those programs.	
Weaver <i>et al.</i> (1999a)	Corporate ethics practices; Fortune 1000	A high degree of corporate adoption of ethics policies, but wide variability in the extent to which these policies are implemented by various supporting structures and managerial activities.	Fortune 500 industrials and 500 service corporations, as listed in 1994 were surveyed during late 1994 and early 1995, for a 26% response rate.
Weaver <i>et al.</i> (1999a)	Corporate ethics programs; control systems; executive commitment; environment	Investigates why corporations introduce formal programs to manage ethics and why those programs display varying characteristics. Environmental factors were the stronger influences on scope, but management commitment was the stronger determinant of control orientation.	Fortune 500 industrials and 500 service corporations, as listed in 1994 were surveyed during late 1994 and early 1995, for a 26% response rate.
Weaver <i>et al.</i> (1999a)	Integrated and decoupled corporate social performance; management commitments; external pressures; corporate ethics practices	External pressures for social performance encourage easily decoupled processes but that top management commitments can encourage both easily decoupled and integrated processes.	Fortune 500 industrials and 500 service corporations, as listed in 1994 were surveyed during late 1994 and early 1995, for a 26% response rate.

ethics programs mainly includes all organizational and environmental characteristics that contribute toward designing and creating ethics programs such as the code of ethics in organizations. Content of the ethics programs research entails understanding the factors that influence the language and structure of these programs. Scholars interested in the communication of ethics programs have adopted a comparative perspective (between industries or nations) to comprehend the differences between successful and unsuccessful ethics programs (see Mayrhofer and Reichel, this volume Chapter 3, for a discussion of comparative analysis of HR). Finally, effectiveness of ethics programs has mostly been understood in conjunction with various organizational factors that make these programs valuable.

### *Formulation of ethics programs*

Several organizational and environmental factors have been suggested as antecedents to formulation of ethics programs in organizations. Prominent among the organizational factors are the roles of various actors such as organizational leaders, board of directors and top management of the organization. Brenner (1992), in propositions based on a case study, argues that the founders' values, competitive pressures, leadership, and organizational problems are some of the major sources that influence the corporate ethics programs. Other studies have also provided evidence for these factors. For instance, Felo (2001), while analyzing data from 137 firms included in the 1995–1996 AIMR Annual Review of Corporate Reporting Practices, shows that the composition of the board of directors influences the adoption of ethics programs such that firms with ethics programs have a lower percentage of inside directors on their compensation committees than do firms without ethics programs. This is so because outside directors are expected to exercise their monitoring role and in that regard, have lesser incentives to collude with managers (Fama and Jensen, 1983). One way to signal their monitoring role is by designing ethics programs in the corporations on whose board they sit. Additionally, Melé *et al.* (2006), through surveys sent to a large number of companies in Argentina, Brazil, and Spain from 2000 to 2001, find that most respondents believe that the CEO of a company has the greatest responsibility for the company's ethical issues and, thus, for maintaining and enforcing ethical corporate practices. Similarly, Weaver and colleagues (1999c, 1999d), in their multiple studies on ethics programs, analyze data from surveys and archival sources for 254 of all the Fortune 500 Industrial and Fortune 500 Service companies listed for 1994. They find that organizations, in which the top management is committed to ethics, are more likely to have formal and integrated ethics programs practices such as ethics-oriented performance appraisals.

Regarding environmental influences, the forces of various stakeholders and the organization's perceptions of its external image are influential in the formulation and adoption of ethics programs in organizations. Stevens *et al.* (2005), in a survey of 407 firms from Fortune 1000 and smaller firms from the manufacturing and service sectors, uncover that financial executives are more likely to integrate their company's ethics code into their strategic decision processes when three different

exogenous and endogenous forces occur: First, if they perceive pressure from market stakeholders to do so (suppliers, customers, etc.); if they believe the use of ethics codes creates an internal ethical culture and promotes a positive external image for their firms; and if the code is integrated into daily activities through ethics code training programs. The effect of market stakeholder pressure is further enhanced when executives also believe that the code will promote a positive external image. Tulder and Kolk (2001) examine corporate codes for 60 firms belonging to the 1997 global Fortune 500 ranking in the sporting goods industry and find that individual companies tend to adopt codes that are less distinct instead of those that are designed as a result of interaction with other stakeholders. In comparison to individual companies, clubs such as the Business Support Groups generally provide weaker incentives for credible codes, due to the weak possibilities of excludability and appropriability of club goods. Similarly, in another study in the international context, Snell *et al.* (1999), using multiple methods and sources, study companies in Hong Kong to find that while a mixture of prudential and altruistic reasons were given for code of ethics adoption, content analysis of the codes suggests that the prime motive was corporate self-defense against bribery, conflict of interest, insider information, gambling, moonlighting, accuracy of records, and misuse of corporate assets, while wider social responsibility tend to be neglected.

Weaver *et al.* (1999c, 1999d), in their studies, investigate both-environmental and organizational factors that influence formulation of ethics programs. They find that environmental factors (such as the government policies, media attention, conference board ethics meetings) and management's ethical commitment influence an organization's ethics program's scope and its orientation toward compliance- and values-based control. Environmental factors were the stronger influence on scope, but management commitment was the stronger determinant of control orientation. Additionally, they show that these factors are influential only if the ethics programs adopted are decoupled or integrated with the organization's policies and systems.

Thus, research on the formulation of ethics programs in organizations has mainly examined how organizational factors, such as top management commitment, and environmental factors, such as the forces of stakeholders and perceptions of organizational image, influence formulation of ethics programs in organization. However, largely missing from the literature is the effect that institutional policies and norms have on the types of ethics programs formulated by organizations. Design of the programs could also be affected by country-level factors, whereby certain programs may be more effective in some countries than others. We later propose how understanding the effects of these forces enables researchers to gain a holistic perspective of the factors that play a role in the creation and formulation of ethics programs in organizations.

### *Content of ethics programs*

The content of any ethics program should include features that aid employees in making ethical decisions in the workplace. The language and structure of content of the ethics programs should, therefore, be clear and easily understood by



organizational members. Also, corporations may adopt ethics programs in several forms including (Weaver *et al.*, 1999b):

- ◆ ethics-oriented policy statements;
- ◆ formalization of management responsibilities for ethics;
- ◆ free-standing ethics offices;
- ◆ ethics and compliance telephone reporting/advice systems;
- ◆ top management and departmental involvement in ethics activities;
- ◆ usage of ethics training and other ethics awareness activities;
- ◆ investigatory functions; and
- ◆ evaluation of ethics program activities.

However, most research on the content of ethics programs does a comparative analysis of mainly one type of ethics program, that is, the code of ethics in different countries, and proposes ways in which the codes would be similar or different based on Hofstede's (1983) cultural dimensions. For example, Singh *et al.* (2005) examine corporate codes of ethics from Australian, Canadian, and Swedish firms along a number of criteria: policy area, authority, and compliance procedures. They find that the contents of the Australian and Canadian codes were similar on these dimensions, reflecting the similar histories and cultures (as measured by Hofstede's dimensions) of these two countries. Further, the contents of the Swedish codes were found to be very different from the Australian and Canadian codes in some areas, reflecting the cultural differences between Sweden and the other two countries. On similar lines, Langlois and Schlegelmilch (1990) investigate the differences between the content of the codes of ethics of European (French, British, and West German) and American companies to find significant differences between Europe and the United States, in particular with regard to employee conduct, supplier and contractor relations as well as political interests. They also show that the differences in the contents of codes exist between the three European countries. France, for example, stands out through the high proportion of codes that address customer relations (93%), while German codes address innovation and technology more frequently (60%) than the codes in any other country. Melé *et al.* (2006), while studying the codes in Argentina, Spain, and Brazil, demonstrate that the main differences between these countries concern the emphasis given to specific aspects, such as avoiding misconduct or taking ethical criteria into account when selecting personnel. The emphasis is greatest in countries where corruption seems most prevalent.

Another aspect of the ethics programs that has received attention is the language used in the code of ethics in organizations in various countries. Farrell and Farrell (1998) examine the codes of ethics of five large enterprises in Australia and find that the language used in the corporate codes examined construct an authoritarian position in the writer/reader relationship from the overuse of grammatical structures such as relational clauses, the passive, nominalization, grammatical metaphor, and modality. Collectively, these structures communicate a strong sense of obligation and even powerlessness since a strong authoritarian tone is established which does not give the addressees the possibility of discretionary decision making. Moreover, Palazzo (2002) suggests that in comparison to US corporations, fewer German

companies have introduced ethics programs since the latter are very reluctant to address normative questions publicly. This difference can be explained by the different cultural backgrounds in both countries and by defining these different 'habits of the heart' (which are described by analyzing the way corporations deal with norms and values within their organizations) underlying German and American business ethics.

Lastly, to our knowledge, only one article examines how the content of the code of ethics of organizations has changed over time. Singh (2006) compares a total of 80 codes, representing a broad cross-section of Canada's largest firms in 2003 to 75 codes adopted by Lefebvre and Singh (1992). Singh (2006) finds that in 2003, as in 1992, more of the codes were concerned with conduct against the firm than with conduct on behalf of the firm. Among the changes from 1992 to 2003 were a significant increase in the frequency of reference to environmental affairs, legal responsibility as the basis of codes and enforcement/compliance procedures.

Thus, research on the content of ethics programs has primarily focused on only one type of ethics program – the code of ethics in organizations, and on understanding how corporations operating in different countries differ on the content (language and structure) of these programs due to the cultural differences between the countries. Lacking in the literature on the content of ethics programs is the focus on exploring how and why other practices such as ethics training and formation of free-standing ethics offices differ between organizations. Also overlooked is the role of human resource practices in designing the content of the ethics programs. Therefore, we propose the integration of IHRM policies with the ethics program practices in organizations below.

#### *Communication of ethics programs*

Effective communication of ethics programs can be considered as the main determinant of success of these programs in any organization. An ethics program may be regarded as successful if organizational members are suitably socialized to view the ethics program as legitimate and vital for the benefit of the organization, and if organizational members internalize these programs such that they view ethical conduct as an integral part of their workplace behavior. This can be achieved through effective communication of the ethics programs. However, prior research in this regard has largely focused on the negative consequences of inappropriate methods of communications, and the differences in communication styles of managers in different companies or different industries. Consider, for example, the study by McKendall *et al.* (2002) who, using survey and archival methods for 108 firms from the Wards Business Directory which lists the largest 1000 US-based firms, determine whether ethical codes, communication about ethics, ethics training and incorporating ethics into human resources practices would result in fewer Occupational Safety and Health Administration (OSHA) violations. The results indicate that communication of the ethical compliance programs also did not have any effect on OSHA violations, and ethical compliance programs themselves did not lessen legal violations. Nijhof *et al.* (2000), in their theoretical framework on ways of stimulating responsible behavior in organizations, suggest the adoption of a dialogical approach

for communication of ethics programs. In a dialogical approach, the communications between decision makers and other stakeholders involved are the foundations for determining a responsible solution. They suggest that this dialogical approach of communication would facilitate the success of an ethics program. In the international context, Snell *et al.* (1999), in their multi-method, longitudinal study of companies in Hong Kong, find that companies tend to impose their codes top-down, emphasizing disciplinary procedures rather than ethics training, and appointing neither ethics counselors nor ombuds people. However, this style of communication and implementation of ethics programs resulted in a decline in moral ethos without any change in the overall standards of perceived conduct over a seven-month period.

From a comparative perspective, Montoya and Richard (1994) conduct ethnographic interviews in 10 Health Care and 10 Energy companies in the US. Data was collected over a four-week period using focus group and structured individual interviews. They discover that neither the Health Care facilities nor Energy companies encounter much success with the codes of ethics program. Further, companies that distribute copies of their code of ethics seldom ensure that the process is completed or that employees understand the purpose of the document, and staff responsible for the code give it a low priority relative to their overall responsibilities. On the other hand, Robertson and Schlegelmilch (1993) survey a total of 860 companies in the US and the UK, and show that UK companies tend to be more likely to communicate ethics policies through senior executives, whereas US companies tend to rely more on their Human Resources and Legal Departments. Additionally, US firms consider most ethical issues to be more important than do their UK counterparts, and are especially concerned with employee behavior that may harm the firm. In contrast, the issues that UK managers consider more important tend to be concerned with external corporate stakeholders rather than employees.

Thus, research on the communication of ethics programs suggests that inappropriate communication of ethics programs may have negative consequences for the organization, and that organizations in different environments communicate their ethics programs differently to their members. However, lacking in the literatures is a process model of how the communication of ethics programs leads to the success or failure of such programs. Communication and implementation of ethics programs could be a negotiated process whereby only particular types of programs may work better in organizations depending on the involvement the employees of the organization in the communication and implementation of the programs. Future research needs to focus on such processes of communication of ethics programs.

### *Effectiveness of ethics programs*

Current research advocates that ethics programs are effective depending on their type, and the perceptions of employees and managers regarding the organizational context. For instance, Weaver *et al.* (1999a) conducted a field survey in a large financial services company to investigate the relationships of the values and compliance orientations in an ethics program to a diverse set of outcomes such as commitment, integrity, etc. Employees' perceptions that the company ethics program is oriented toward affirming ethical values are associated with seven outcomes of reporting

violation, commitment, integrity, ethical awareness, better decision making, seeking advice, and observing ethical behavior. Perceptions of a compliance orientation are associated with the latter four of these outcomes. The interaction of values and compliance orientations is associated with employees' willingness to report misconduct. In another study of a utility company, a telecommunications company and two energy-related companies, Trevino and Weaver (2001) show that when employees perceive general organizational justice and ethics program follow-through, there is less unethical behavior and a greater willingness to report problems. General justice and ethics program follow-through also interact with each other, showing that the impact of ethics initiatives is influenced by the organizational context. Pelletier and Bligh (2006), in a California government agency, examine the perceived importance of three organizational preconditions (awareness of formal ethics codes, decision-making techniques, and availability of resources) theorized to be critical for ethics program effectiveness, and the importance of ethical leadership and congruence between formal ethics codes and informal ethical norms in influencing employee perceptions. Results suggest that employee perceptions of organizational preconditions, ethical leadership and informal ethical norms were related to perceptions of ethics program effectiveness.

Regarding ineffectiveness of ethics programs, McKendall *et al.* (2002), in the above-mentioned study, indicate that ethical compliance programs do not lessen legal violations. In fact, lower firm profitability results in a greater number of willful and repeat OSHA violations. Similar results were attained by Jackson (2000), whose data encompass managers in France, Germany, Britain, Spain, and the US working in over 200 companies operating in these countries. Jackson (2000) presents evidence that, despite national differences in areas of gift giving and receiving, loyalty to company, loyalty to one's group, and reporting others' violations of corporate policy, the clarity of corporate policy about management ethics has little influence on managers' reported ethical decision making, and also finds that the perceived behavior of managers' colleagues is far more important in predicting attitudes toward decision making of managers across the nationalities surveyed. Thus, effectiveness of ethics programs is largely influenced by not only the type of ethics programs but also the perceptions of the usefulness of such programs by various organizational members.

### FUTURE AVENUES FOR RESEARCH: PRACTICE INTEGRATION

To better understand the role of IHRM in the formulation and implementation of ethics programs in MNCs, we propose that the practices and policies of IHRM should be fully integrated with the formulation, content and communication of ethics programs reviewed above. Additionally, multilevel forces affecting the ethics programs in MNCs should also be considered during their formulation (see Wright and van de Voorde, this volume Chapter 2, for a discussion of research issues associated with multilevel analysis). We elaborate on each of these ideas below.

Previous research suggests that the human resources management in a MNC administers the policies and practices of (a) human resource planning, (b) staffing, (c) training and development, and (d) performance evaluation, and compensation

(see Schuler *et al.*, 2002, for a review). However, this research does not explicate how these practices may be administrated to ensure that ethics programs in MNCs are successful. We suggest that each of these IHRM practices plays a key role in how MNCs formulate, design in terms of content, and communicate ethics programs for high effectiveness. We argue that the staffing and training should aim at facilitating the formulation, content and communication of ethics programs, whereas the performance appraisals and compensation of top organizational leaders should be linked to the successful implementation of these programs.

### *Human resource planning*

Human resource planning entails synchronizing the staffing, appraisal and compensation subsystems of IHRM (Schuler *et al.*, 2002). Bartlett and Ghoshal (1998) suggest that such planning should be cognizant of, and responsive to, the MNC's industry characteristics, product market, global structures, and competitive strategies. However, we contend that this planning should also be attentive to the ethics programs in the MNCs. We explore this proposal in detail below.

### *Staffing*

The staffing policies of MNCs can influence both the formulation and communication of ethics programs. Brewster and Scullion (1997) suggest that traditionally, MNCs sent parent country nationals abroad to ensure that the foreign operations carried out the policies and procedures of the home office. However, as the costs of hiring and retaining these managers became inflated, MNCs increasing hired from the host country or a third country to satisfy their international staffing needs (Black *et al.*, 1999). The above review suggests that this practice can be characterized as being detrimental to the formulation of ethics programs in organizations since organizational leaders and high-level managers are some of the important forces in the creation and adoption of ethics programs in organizations. This issue is further complicated for US firms in comparison to other firms such as those from Japan since the former are less likely to staff higher management vacancies in foreign operations with parent-country nationals than Japanese MNCs who frequently staff senior and middle management positions with expatriates (Tung, 1982). On the other hand, Bailey and Spicer (2007), through data collected via two experiments from 1998 until 2001, find that American expatriate respondents who were highly included in the Russian community expressed ethical attitudes similar to those of the Russian respondents, even though differences may have been expected due to cultural and national differences. Furthermore, Cappelli and McElrath (1992) suggest that ethnocentric forces may compromise an MNC's ability to appreciate the cultural synergies between the parent and host country operating units. Therefore, it may be preferable to engage more host country managers than those from the parent company since the former may be expected to have been previously socialized in the culture of the units in the host country.

We propose that to ensure the optimal formulation and communication of ethics programs, MNCs should be staffed with both, parent and local company managers,

such that the former, with the aid of the local company managers, are primarily responsible for creating and formulating ethics programs that highlight the concerns of the parent company. Similarly, the local company managers may be responsible for effectively communicating the benefits of the ethics programs to the other members of the MNCs since they may be more versed with the mode and cultural norms of communicating these policies.

### *Training and development*

Research on training and development in IHRM has mostly focused on the predeparture (expatriate) training extended to parent company nationals and their families (Schuler *et al.*, 2002). Lack of or inadequate training has been shown to lead to higher expatriate failure rates (Tung, 1982). Research has also adopted comparative analyses of training programs offered by MNCs in different countries. For instance, US multinationals have been found to engage in less training than European and Japanese firms (Tung, 1982), and multinationals in different countries have been shown to provide divergent training to their managers (Noble, 1997). However, missing from the literature is the importance of *ethics* training for the expatriates, including the need of ethical behavior by the managers themselves. We contend that managers in MNCs need to receive additional training, regarding ways to increase ethical behavior among employees in MNCs, in addition to monitoring their own behaviors. This training would encourage the managers to act as role models, thereby ensuring a successful formulation, appropriate content, and clearer communication of ethics programs. Weaver and Trevino (2001) propose that organizational leaders need to receive ethics training so that they can convey the ethics message through their involvement in delivering training and through daily role modeling, and suggest that "the HR function is uniquely situated to insure that a values orientation is emphasized in training, that training occurs frequently and across levels, and that training related to ethics and fairness is incorporated into leadership and management development activities in appropriate ways" (p. 123).

The language used to describe situations can also influence people's ability to recognize and act on ethical concerns (Butterfield *et al.*, 2000). Thus, the language used by the organizational leaders can facilitate the formulation and adoption of ethics programs in organizations. As noted in the review above, the language of the code of ethics adopted by firms in different countries varied noticeably (Langlois and Schlegelmilch, 1990; Melé *et al.*, 2006; Singh *et al.*, 2005). Training and development of expatriate managers should, therefore, include understanding the cultural and national differences in language between their parent and host countries. This training can provide the managers with knowledge that could be used to improve or change the content and communication of the ethics programs.

### *Performance evaluation and compensation*

Performance evaluations of expatriates is mostly related to the operation of the unit and how it relates to other locations (Evans, 1986), unless they are exclusively assigned for technical projects or short-term stays. Peterson *et al.* (1996) compare

the British, German, Japanese, and US multinationals to find that expatriates were evaluated either quantitatively or qualitatively entailing numerous job performance dimensions. However, missing from the list are criteria such as cross-cultural interpersonal qualities, sensitivity to foreign norms, laws and customs, and the host country's integration with the MNC's other units (Schuler *et al.*, 2002), that are not directly related to performance. Also missing is the evaluation of the success of the ethics programs in the MNC unit. Including dimensions that evaluate the ethics programs of a MNC unit would ensure the indisputable formulation and implementation of ethics programs in MNCs.

Research on compensation in MNCs has mainly looked at the patterns of compensation and benefits received by the managers. For instance, Towers-Perrin (1987), in their report on worldwide total remuneration, demonstrate that American and Japanese multinationals tend to provide their parent company nationals with home country entitlements, but limit host company nationals to fringe benefits. However, European companies extend home country benefits to both groups. We suggest that irrespective of the compensation packages given to either groups, each must be awarded additional benefits when their units have created and adequately communicated ethics programs to the MNCs' employees. These benefits should also be linked to the success of the ethics programs, whereby success is measured by a reduction of, and increase in reports of, unethical behavior of the employees.

Thus, we propose that the comprehensive staffing and training of organizational members can facilitate the formulation, content and communication of ethics programs, and performance appraisals and compensations should be linked to the implementation and success of these programs.

#### FUTURE AVENUES FOR RESEARCH: MULTILEVEL ISSUES

Another way to grasp the role of IHRM in the success of ethics programs in MNCs is by focusing on a more comprehensive picture of the influences of institutional, industry or country level and organizational pressures affecting ethics programs in MNCs. As Figure ?? illustrates, factors that influence the success of ethics programs at one level will also have an affect at another level. We propose that an integrative, multilevel view of the forces behind the formulation and implementation of ethics programs can add to our knowledge of the role of IHRM in ensuring the success of these programs. Let us consider some probable relationships herewith.

##### *Institutional factors*

Institutional theory emphasizes the role of social factors such as external conformity pressures from regulatory bodies or parent organizations, pressures from other organizations with ties to the focal organization, and collective social construction processes, instead of economic and organizational factors on the adoption of practices by organizations (Baron *et al.*, 1986; Burns and Wholey, 1993; Meyer and Rowan, 1977; Scott, 1995). These normative pressures contribute to isomorphism, that

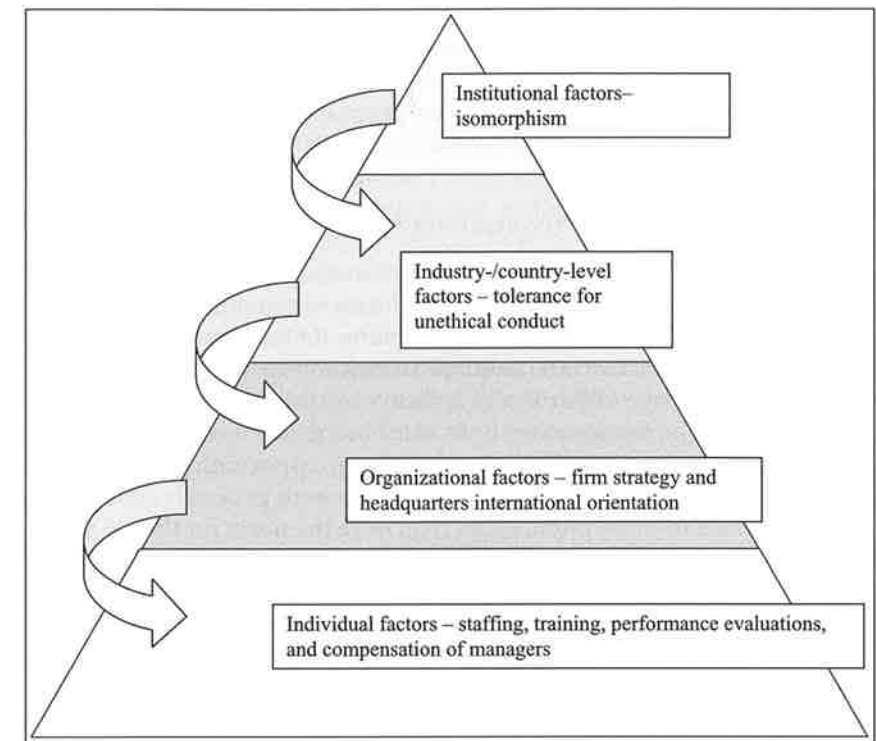


FIGURE 20.1 Multilevel issues in understanding the role of IHRM in formulating and implementing ethics programs.

is, the emergence of common organizational practices over time (DiMaggio and Powell, 1983). Therefore, it is essential that the reasons behind the adoption of ethics programs by organizations – whether the programs are implemented for efficiency gains or simply to gain legitimacy – are investigated (see Westphal *et al.*, 1997). This insight should be the first step in exploring and explicating the role of IHRM in the success of ethics programs.

##### *Industry- and country-level factors*

Institutional pressures may vary according to the industry or the country in which the organization is embedded. Institutional pressures may, thus, influence the industry- or country-level factors affecting the formulation of ethics programs in MNCs. For instance, in some industries such as the pharmaceutical industry, there may be a higher institutional pressure to adopt ethics programs than in, say, the sporting goods industry. Similarly, in countries such as India, the attitudes toward, and pressures for, successful implementation of ethics programs are significantly lower than those in, say, the US (see Christie *et al.*, 2003). In such situations, the human resource practices and policies in MNCs in the pharmaceutical industry, and in the US, may have a greater role to play in the formulation, content, communication

and implementation of ethics programs. On the other hand, in countries such as India, MNCs may need better understanding of the cultural factors that influence employees attitudes toward ethics programs. MNCs may, hence, need to be more strategic in developing the content of ethics programs and also in communicating the need of these programs to employees in these MNCs.

### *Organizational factors*

This leads us to examine the organizational factors that have an effect on the ethics programs in MNCs. As noted in the review, foremost among them is the role of the CEO and other top leaders in the organization. Other factors include the firm strategy and the headquarters international orientation (Schuler *et al.*, 2002). These organizational factors may differ by the industry or country in which the MNC operates. Consider the Japanese-owned auto firms in the US in the 1980s. The US has shown particular concern in the equal employment opportunity (EEO) posture to foreign subsidiaries. However, Japanese auto plants were generally situated in areas that had lower black-to-white populations than were the norm for the US auto plants (Cole and Deskins, 1988). The Japanese auto plants, therefore, received much criticism for these actions. Hence, even though the firm strategy for the Japanese auto plants in the US would be to market cheaper cars to the US population, this policy would be highly influenced by the industry- and country-level factors. We suggest that the human resources policies and practices may play a role in such scenarios by communicating the programs required to ensure ethical conduct in the host country by the foreign firm. This again suggests that the parent company should play the lead in formulating and monitoring the ethics programs in MNCs, but with the aid of the local units since the latter may be more successful in developing the content and communicating the ethics programs.

The organizational factors, in turn, have an effect on the staffing decisions, the training and development, and compensation of managers in the MNCs discussed above. In summary, research on the role of IHRM in formulating and implementing ethics programs in MNCs should look at all the factors comprehensively to gain a holistic picture of the forces affecting these programs.

### CONCLUSION

This chapter explicates the role of IHRM practices and policies in the formulation and implementation of ethics programs in multinational enterprises. We have conducted an extensive review of the literature on ethics programs. We find that the impact of human resource practices and policies on ethics programs is largely ignored in the literature. We, therefore, suggest ways in which scholars interested in understanding the human resource practices or the ethics programs in organizations can advance both literatures. We propose that we should look at how ethics programs and human resource practices can be integrated such that the formulation, content and communication of ethics programs are incorporated into the staffing, training and development, and performance appraisals and compensation

practices of MNCs. We argue that staffing and training decisions may influence the formulation, content and communication of ethics programs, whereas the performance appraisals and compensation of top managers in MNCs will have an effect on the successful implementation of these programs.

We also propose that the role of the IHRM should be understood by comprehending the multilevel issues affecting the formulation and implementation of ethics programs. We contend that the institutional, industry- or country-level and organizational factors all influence each other and have an impact on the ethics programs of MNCs. We advocate understanding the institutional forces first to assess the importance of ethics programs in organizations. The industry- and country-level forces should then be accounted for while formulating and communicating ethics programs. Lastly, organizational factors should also be considered since they play a pivotal role in the successful implementation of ethics programs. We have, therefore, put forth several ways in which the fields of ethics programs and IHRM can progress so that ethics programs are successfully formulated and implemented in MNCs.

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