THE ROLE, TOOLS AND EFFICACY OF ETHICS PROGRAMMES IN CZECH COMPANIES

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Abstract: Organizations facing the question of whether to adopt an ethical management programme not only face this question, but also that of which tools to apply to achieve this. Although having a code of ethics is usually the main tool through which an organisation accomplishes this, it is not the only tool available. For an organisation's ethical management programme to be effective, the tools applied must form an interconnected whole, which is often referred to as a company's "ethical infrastructure". This infrastructure usually includes, among other things, ethical leadership, ethics training and communication for management and employees alike, an internal ethics committee, an ethics officer, etc. The aim of this paper is to describe, analyse and evaluate the main tools organisations use to implement ethical management programmes in addition to a code of ethics. Within this context, the research sought to determine how widespread certain ethical management tools are among Czech companies, what the main factors are that influence their prevalence and structure, and to evaluate how effective these tools are. The results presented in the article are based on an extensive quantitative, as well as qualitative analysis, of a sample of Czech companies of various types and sizes.

Keywords: Code of Ethics; Ethical Leadership; Ethical Officer; Ethical Ombudsman; Ethical Training; Ethical Hot Line; Whistleblowing; Internal Ethical Committee

1 Introduction

Organisations seeking to build a good reputation as a responsible and trustworthy business partner are widely recommended to adopt an ethics management programme (Wood, G. & Rimmer, M., 2003; Statler, M. & Xia, H.M., 2010). The objective of an ethics programme is to influence the behaviour of employees, that is, to promote ethical behaviour and impede unethical behaviour. Such a programme can therefore be regarded as a part of their human resources management policy. Ethics programmes, in this regard, cover both formal organisational control tools, i.e. a system of obligatory rules and enforcement measures to prevent unethical behaviour and promote ethical behaviour (Kaptein, M., 2009), also referred to as "hard control programmes", and what Majluf and Navarrete (2011) call soft control tools, i.e. more casual, intangible, implicit tools embedded in the ethical culture and ethical climate of an organisation.

The code of ethics of an organisation is often closely related to other management tools (Crowther, D. & Seifi, S., 2014), in particular those utilised to implement a company´s strategies with regards to corporate social responsibility, corporate governance and compliance management (the system for monitoring and assessing whether a company adheres to certain internal and external rules regarding its business operations). In some cases, the sources for the code of ethics also include the concept of sustainable development of society or of a particular company.

The quality of ethical management is also very closely related to corporate culture, which can be understood to be a "complex of company customs, traditions, values or standards, working ones as well as social ones, written ones as well as unwritten ones, whose importance is based on the fact that they form a framework influencing the behaviour of individual employees or groups thereof" (Curtis, M.B. & Williams, M. E., 2014; Straková, R., et al., 2021). The term ethical culture of an organisation is also used within this context (Park, H. & Blenkinsopp, J., 2013). Ethical management and codes of ethics of organisations are both in theory and practice often linked to the procedures and programmes referred to as corporate compliance (Stucke, M. E., 2014; Skýpalová, R. & Kučerová R., 2014), although they are not identical, and as such, necessitate

different managerial methods of approaching employees, communication and control (e.g. Bohinská, A., 2019; de Klerk, J.J., 2021). The word "compliance" refers to the practices or behaviour of a company, its management and employees, with the set rules of business, i.e. legal regulations and internal directives, including those dictated by the rules of ethical behaviour. Compliance is to a great extent, but not purely, a legal matter (Weber, J. & Wasieleski, D.M., 2013). The system of internal directives and organisational measures in this field is often referred to as the Compliance Management System (CMS). The term usually refers to the set of rules and measures aimed at preventing failure to adhere to regulations, and also usually to ethical standards, by a company or its employees. The relationship to the previously described terms also points to the perception of compliance as a natural part of internal strategy and company culture (Treviño, L.K., et al., 2014). An effective compliance programme may prevent a legal entity from being responsible for a committed crime. Achieving this is a daily challenge for whoever carries responsibility within a company for the compliance sphere (Weber, J. & Wasieleski, D.M., 2013). Compliance management is a system of company management in the form of activities and procedures focused on the prevention, uncovering and response to behaviour that may be considered to contradict internal and external regulations and that may lead a legal entity to be judged as criminally responsible.

Despite the relatively widespread use of these programmes, whose main goal is to clearly define and unequivocally declare, both externally and internally, the principles and rules of ethical behaviour that a company wishes/plans to adhere to (Kaptein, M., 2017), limited empirical evidence exists concerning the effectiveness of these ethics programmes within business organisations. Last, but not least, their effectiveness depends on the structure of the measures for implementing the ethics rules, i.e. the tools for applying ethical management.

The effectiveness of a code of ethics as a single tool for the management of the external and internal relations of an organisation is not a matter of course (Oliver, D., 2016; Hill, R.P. & Rapp, J.M., 2014) due to the spectrum of unethical behaviours being so wide. The efficacy of an ethics programme is therefore based not just on its contents, i.e. clear, understandable and unambiguous formulations (MacLean, T.L., et al., 2014), but also on how the components thereof mutually complement each other, i.e. what methods of creation were used, its use, how they are applied (Singh, J.B., 2011) and enforced on a day-to-day basis (Ruiz, P., et al., 2014), and what attention is paid to corporate social responsibility (Valentine, S. & Fleischman, G., 2008). For the effective, i.e. not just formal, ethical management of an organisation, additional organisational management tools are usually needed which, in the ideal case, form a mutually linked network of instruments that represent a company's "ethics infrastructure" (Garcia-Marza, D., 2017). This ethical infrastructure is therefore not only an important source for determining the content of an organisation´s code of ethics, as well as a crucial instrument for its implementation, but also vice versa, the code of ethics servers as its fundamental source of rules and values (McLeod, M.S., et al., 2016.).

In assessing the efficacy of ethics programmes, this study naturally starts with an analysis of the factors influencing the structure and or number of ethics measures and instruments within company ethics infrastructures. Subsequently, it seeks to establish the relationship between the number of components of ethical management programmes that were adopted, the results thereof in terms of the elimination of unethical behaviours, and the relationship between each individual component and the frequency of unethical behaviour (Kaptein, M., 2014). This study also establishes whether there is an optimal structure for components of ethical management programmes and what the relationships are between the types of companies, in terms of size, industrial sector, etc., and the efficacy of such programmes.

2 Theoretical background

Available literature offers a broad array of tools for aligning employee behaviour with established norms and principles. The key instruments of ethical management that form a company's ethics infrastructure, through and with the help of which codes of ethics are implemented, are, as obtained from the WoS and Scopus databases, the following:

Ethical leadership
Leading by example is usually regarded as the prominent "soft" tool of ethical management (Mostafa, A.M.S. & Abed El-Motalib, E.A., 2020), operating on a daily basis "throughout working hours". A comprehensive summary of current research results in the field of ethical leadership is offered by the study of Shakeel, et al. (2020). It touches on four topics, namely the conceptualisation of theories of ethical leadership, the existence of measurement tools for ethical leadership, developments in the field of ethical leadership, and the outcomes of ethical leadership in the context of its positive and negative impacts. The study by Shilu (2018) traces the key elements of ethical management in an organisation in today's rapidly changing world. According to him, an ethical leader thinks about the long-term impacts, challenges and benefits of the various decisions they make in an organisation. They always shows themselves as a modest, stubborn, unifying and helpful person who strives to strengthen goodness and fairness through their actions. Never afraid to take responsibility, their motto is to set high ethical standards that are worth following. They have a strong influence on inculcating the ethical values of the organisation through typical examples of their behaviour. The theme of the impact of ethical behaviour of leaders on employee engagement through enhancing employees' morals is one also taken up by Kamal, et al. (2018). They examine the impact that the transparency of the rules a leader applies and the decisions they make has on an employee's sense of belonging to an organisation. The results reveal that a significantly positive relationship exists between ethical leadership and an employee's sense of belonging to a company. In their article, Stouten, et al. (2013) ponder the question of whether a situation can arise when the leader of an organisation is considered too ethical. Based on the distinct nature of pro- and anti-company employee behaviour, the authors hypothesized that ethical leadership is linearly reflected in deviant employee behaviour (i.e. increased ethical leadership contributes to lower deviance), but with the expectation that its impact on employee loyalty to a company would show a curvilinear relationship (i.e. strengthening ethical leadership helps lower deviance only to a certain extent, then the trend reverses). Specifically, the authors expected that at lower levels, ethical leadership promotes employee loyalty, but at high levels, this affiliation would weaken. Saima, et al. (2020) also study the mechanisms that explain this phenomenon, i.e. the perception of moral blame by employees.

The psychological and social process by which employees resort to deviant behaviour towards their employer is studied by Mostafa & Shen (2020). Ouakouak, et al. (2020) examine how ethical and emotional styles of management influence employee motivation and therefore their work performance. A positive correlation between ethical/emotional leadership and work motivation/job performance was demonstrated, as was the impact of work outcomes on suppressing employees' desire to leave the company. The simultaneous effects of ethical leadership and corporate social responsibility on the considerations of employees of different professions to leave a company, as well as the mediating mechanisms in these relationships, can also be found in the work of Nejati, et al. (2020). The impact of the moral courage and responsibility of leaders on the loyal behaviour of employees as a whole group of people is the subject of the article by Mansur, et al. (2020).

Arrangement and use of whistleblowing
Employees are usually among the first to learn about unethical practices and can point them out. The active notification of a particular unethical practice that takes place within the workplace (Ruiz-Lozano, M., et al., 2016) is therefore an important component of company ethical infrastructure. An employee may however face various dilemmas in such a situation, in particular with regards to the question of whether they should be disloyal to their colleague(s). Whistleblowing therefore requires an arrangement to be in place, usually integrated in an organisation's code of ethics, which includes an undertaking not to sanction in any way the person that provides the information on the unethical behaviour. The significance of this ethical organisational management tool is backed up by the findings of a worldwide survey on economic crime conducted by PricewaterhouseCoopers Global (PwC's Global Economic Crime and Fraud Survey, 2022). The survey showed that 23% of all the respondents that had faced serious economic crime stated that the behaviour had been revealed by means of a notification system (an anonymous line, helpline etc.) or by notification inside the organisation. Similarly, a survey conducted by KMPG showed that 19% of the 596 analysed cases of economic crime were revealed by whistleblowers. Cases also exist in the Czech Republic where a notification led to the disclosure of criminal activities and consequent punishment. Whistleblowing is therefore one of the most important tools for making disclosures and preventing fraudulent and corruptive practices. The credibility of this tool is therefore higher if the code of ethics of an organisation contains guarantees that the organisation supports an environment in which employees are not afraid to report potential fears and problems, that it does not tolerate any kind of retaliatory measures.

Education and training of employees and managers
Education in the field of ethical behaviour should unify the opinions of all employees on the importance of ethics in everyday work and teach effective communication supporting openness and confidence inside a company (Deogaonkar, An., et al., 2018). Ethics training is considered a costly investment (Warren, D.E., et al., 2014). It is therefore of great interest to what extent it generates a positive return. Steele, et al. (2016) generally acknowledge the positive effects of ethics training programmes, highlighting the considerable variability in the efficacy of ethics training programmes through a discussion of the main issues related to the method of evaluation and format of ethics training. In response to this variability, Mulhearn, et al. (2017) derive a teaching typology in ethics education. A study by Valentine & Fleischman (2004) on a sample of over 300 US businessmen showed significant statistical support for the claim that businessmen employed in organisations using formalised ethics training programmes show more positive perceptions of a company's ethical context than individuals working in companies without such training.

Ethics hotlines allow employees to report suspected illegal behaviour and ethical dilemmas, as well as share their concerns. As they have not yet received much attention in scientific circles, the article by Calderon-Cuadrada, et al. (2009) tries to fill this gap by presenting their characteristics and the level of implementation. Based on an analysis of ethical management codes and compliance programmes in 150 top foreign companies, they monitor the basic characteristics of this mechanism, the degree of difficulty, the share of protective measures, the reported matters and systems for reporting them, and the relationship between hotlines and a company's economic characteristics.

Reporting the risk of a breach of ethics rules
This practice pursues similar goals to whistleblowing, but in a slightly different way. It is based on the obligation of managers and employees to provide the line manager or an appointed company officer with timely and relevant information about a situation in which there is a risk of a breach of the ethics rules (Steele, L. et al., 2016). Such situations include events which might either tarnish the brand name of a company (business ethics, the environment, safety, health), or lead to a breach of their legal obligations. Examples include a deadly injury or serious accident, pollution of the environment, serious environmental accident, etc.

Internal ethics committee

These committees are subordinate to an organisation´s management and consists of its managers and employees, primarily the company lawyer, human resources manager and an experienced operational manager. The areas of responsibility of an ethics committee include the provision of counsel on ethical issues, the investigation of alleged breaches of the code of ethics, and the making of recommendations to management.

Ethics officer

Creating the position of Ethics Officer helps ensure the ethical and legal behaviour of employees (Treviño, L.K., et al., 2014). Although these workers often deal with external legitimate challenges, they must face these challenges directly within the organisations they work for. For this reason, it is necessary to simplify their working conditions and thereby help them gain internal legitimacy. A case study by Krambia-Kapardisova, et al. (2019) defines the requirements for the qualifications of these workers, their awareness of their own legal responsibility, the level of knowledge and the nature of the work required, as well as their professional shortcomings perceived by management, committees and regulators. The regulatory implications arising from this study highlight the need for coherence and synergy that can be ensured through unified testing and graduate study in financial compliance. The issue of the role of the ethics officer in a company and their decision-making independence from the management of an organisation is discussed in the article by Hoffman, et al. (2008). It focuses primarily on the question of whether the ethics officer's inherent conflict of interest with management may limit their ability to be an effective monitor and deterrent to unethical conduct across organisations. They come to the conclusion that the current system, in which the ethics officer directly reports to the management of the company, must be changed so that the officer can perform their work effectively.

Ethics audit

An ethics audit (Victor, B., & Cullen, J.B., 1988) can have different focuses (Kaptein, 2015). When it comes to behaviour in an organisation (Kaptein, M., 2020), an ethics audit can focus on the behaviour of one or a limited group of individuals. This usually happens when there are hints or allegations of unethical behaviour (such as signs of bribery, theft and fraud). Alternatively, such an audit may focus on the ethical content of the products and services provided by an organisation.

3 Aims and Research Questions

As stated above, research concerning the efficacy of multiple component ethics programmes has so far been scarce, despite the relevance thereof. After all, such programmes typically consist of a range of areas and aims for the elimination of a broad scale of unethical behaviour. Any research concerning the general efficacy of ethics programmes, in order to be relevant, must therefore be based on a large sample of diverse organisations.

In this study, the structure and impact of ethics programmes on unethical behaviour is therefore examined in terms of six instruments, namely the existence of a code of ethics, the application of ethical leadership, the existence of an ethics officer/ombudsman, the use of ethics training, the existence of an ethics hotline, and the existence of an internal ethics committee. The aims of the research were threefold. Firstly, to determine which additional tools of ethical management ("ethics infrastructure"), i.e. beyond the code of ethics, are used by companies in the Czech Republic. Secondly, to find out the frequency of their presence in companies. Thirdly, to evaluate the relationship between the presence of the main tool of ethical management, namely a code of ethics, to the other most frequently used tools of ethical management in companies in the Czech Republic.

More specifically, the aim was to find out whether and, if so, what the common characteristics of companies are with regards to the number of ethical management tools used and their structure, i.e. the combinations of management tools applied, as well as to what extent the tools of a company's ethical infrastructure are tied and related to a code of ethics (which is usually the principal ethical management tool), and if the latter is regarded as a prerequisite for efficacy.

On this basis, the following research questions were formulated:

RQ1: Are there characteristics companies share when it comes to determining the number and structure of the ethical management tools they use? Within this context, the following company characteristics were considered: industrial sector, size (no. of employees), scope of territorial activity, financial results (including recent trend), and the presence of a personnel department.

RQ2: Does a relationship exist between the number and type of ethical management tools used by individual companies and their results/efficacy of their ethical management?

4 Data and Methods

The data were obtained through primary research based on a questionnaire survey conducted at the turn of 2018/2019. The research focused on obtaining answers regarding the number and context of the use of ethical management tools in relation to industrial sector, size (no. of employees), scope of territorial activity, financial results (including recent trend), and the presence of a personnel department.

The analysed data matrix therefore consisted of the quantitative variables listed below, of which some are company identification variables and some are of a binary nature concerning the existence of individual components of ethics programmes:

- Industrial sector (primary, secondary, or tertiary)
- Company size (micro, small, medium-sized, large)
- Number of employees (current number of employees)
- Scope of territorial activity (regional, national, transnational)
- Financial results in the last five years
- Projection of financial results for the next 3 years (categories: unprofitable, balanced, profitable)
- Existence of a personnel department (binary variable – no/yes)
- Binary variables concerning the existence/presence of a/an code of ethics, ethical leadership, ethics officer/ombudsman, ethics training, ethics hotline, internal ethics committee

To find possible relationships between the company identification variables and the above listed binary variables, an artificial variable was created with the domain {0, 1, 2, 3, 4, 5}, depending on how many ethical management tools the company used.

The methodology of association rules was used to identify possible relationships between variables. This enabled us to identifying strong relationships, in our case rules, in the following form: if {A, B} then {F}, or if {D} then {A, F}, etc.

For the derivation of these rules, the "apriori" algorithm was used (available through software). The essence of the algorithm can be characterised as a gradual pruning of the least frequent items and their followers. To select association rules from the set of all possible ones, different measures were used to evaluate "interest and significance". The best known and usually the most used measures are "support" and "confidence". These can be roughly defined as follows:

Support is defined for a given set containing elements (items, states) as the proportion of these identical sets in the entire dataset, i.e.

$$Supp(t_{X \Rightarrow Y}) = \frac{N_{t_{X \Rightarrow Y}}}{N} = P(X \cup Y)$$

Confidence can be expressed as an estimate of the probability P(Y|X), i.e. the probability of finding Y in a transaction given that the transaction contains X. More rigorously:

$$Conff(X \cup Y) = \frac{Supp(X \cup Y)}{Supp(X)}$$

The numerical calculations were carried out using a combination of the R 3.5.2 programming environment, MS Excel 2016 and own software programmes.

5 Results

In total, 260 completed questionnaires were obtained through the survey. The company characteristics in the sample, based on the identified quantitative variables, were as follows:

Company size: 83 micro, 83 small, 54 medium-sized, 40 large enterprises
Industrial sector: 12 primary, 105 secondary, 143 tertiary
Scope of territorial activity: 98 regional, 77 national, 85 transnational companies
Financial results: 11 unprofitable, 66 balanced, 183 profitable companies

The use of specific ethical management tools by the companies surveyed is summarised in Table 1.

Table 1: Application/presence of ethical management tools in companies in the Czech Republic

Ethical management tool	No. of companies
Code of ethics	152
Ethical leadership	52
Ethics officer/ombudsman	85
Ethics training	39
Ethics hotline/whistleblowing	8
Internal ethics committee	4
None	31

Source: Authors

The number of (multiple) ethical management tools used by the companies surveyed is summarised in Table 2.

Table 2: Number of companies by the number of ethical management tools used

No. of ethical management tools used	0	1	2	3	4	5	6
No. of companies	31	153	52	17	5	0	2

Source: Authors

The other main outcomes derived from the questionnaire survey are as follows:

(i) The vast majority of companies use only one ethical management tool, namely a code of ethics. Further, only 76 companies (i.e. < 30%) use more than one of the ethical management tools under consideration, with just 7 companies using 4 or more.

(ii) A multivariable statistical analysis of the quantitative aspects of the companies reveals that with regards to the use of more than one ethical management tool, the usage of two ethical

management tools is typical. Those enterprises that fall into this category can be characterised as having a code of ethics, operating in the tertiary sector and, as a rule, have (projected) financial results that can be considered as positive or profitable. In some cases, these companies do not have an HR department and - as follows from the aforementioned - do not have an ethics hotline or committee.

(iii) Not a single ethical management tool is used by micro-enterprises, i.e. companies with less than 10 employees, operating in the tertiary sector, and whose activities cover the Czech Republic only. At the same time, the financial results of these companies can be characterised as profitable or balanced.

(iv) Enterprises operating in the tertiary sector (to a small extent in the secondary sector), with up to 50 employees, whose activities are predominantly national (in some cases transnational), with balanced or profitable financial results and a positive outlook, usually use only one ethical management tool.

(v) Companies that use two ethical management tools are mostly large companies (i.e. 50-249 employees) whose activities are predominantly national and that have balanced financial results.

(vi) Companies that use three ethical management tools are mostly large companies (i.e. over 250 employees) that typically operate in the secondary sector, whose activities can be characterised as transnational to national, are profitable and have a positive outlook.

(vii) The number of companies using a higher number of ethical management tools, i.e. 4 or more, was not high enough to make it possible to determine their overall characteristics in terms of the quantitative indicators.

(viii) The quantitative analyses aimed at finding relationships between the presence of codes of ethics and company characteristics revealed significant differences according to company size and scope of activity, although the differences found were far from even and uniform.

6 Conclusion and Discussion

What follows is a summary of the main outcomes of the survey and identified areas of interest for further consideration.

The analysis showed that the majority of companies surveyed used some form of ethical management tool, the predominant one being a code of ethics. Others included the presence of an ethics officer/ombudsman, ethical leadership and ethics training.

On the basis of the results presented, it can be stated that, with regards to the RQ1, the majority of the companies surveyed apply ethical management based on a code of ethics, with only a minority having a broader infrastructure of ethical management tools available to tackle or eliminate the diverse array of non-ethical behaviours that exist. Having a broader set of ethics management tools is characteristic of the largest companies and those that operate transnationally.

These conclusions can be explained both by the fact that the existence of a code of ethics is regarded as sufficient or as an efficient enough tool vis-a-vis the ethical management needs of companies, mainly smaller enterprises, and that ethical management has so far mainly focused on rather formal instruments, whereby greater emphasis has been placed on declaring ones ethical intentions and the external image of the company over a more in-depth approach to ethical management. The latter seems to be supported by the fact that the existence of a personnel department does not apparently play an important role in ethical management.

To some extent, the results (indirectly) support RQ2. It would seem that companies that are larger, with a broader scope of activities, and which are financially more successful, tend to use a more developed structure of ethics management tools.

At the same time, it is clear that a qualitative analysis based on structured interviews with company representatives is needed to further elaborate on the findings. Such an analysis could provide clarity on the main reasons for implementing ethical management in various types of companies, how companies determine there are ethical dilemmas, how ethical management tools are reflected in HR management, to what extent a code of ethics is a product of teamwork, which brings together people from different parts of an organisation, as well as what the specific roles are of the individual tools of ethical management.

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Primary Paper Section: A

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