

CODES OF ETHICS FOR MANUFACTURERS: A DESCRIPTIVE STUDY

Michele Henderson, College of Business, Johnson and Wales University, Charlotte, NC 28202

Marilyn Smith, College of Business Administration, Winthrop University, Rock Hill, SC 29733

ABSTRACT

This paper presents a practitioner oriented paper that lists the components included in codes of ethics in two diverse industries and five companies within each of the industries. The codes of ethics are compared regarding structure and level of detail of the codes. The paper also compares similarities and differences of issues covered across and within industries. This information can be used by companies desiring to benchmark their codes of ethics and identify areas for improvement, provide a starting point for companies which are developing codes for the first time, and by academics teaching business ethics.

INTRODUCTION

Most industries, public and private companies, and professional organizations have codes of conduct or codes of ethics, which generally refer to the same types of documents. This study uses the terms consistently with the respective company's usage or interchangeably in general contexts. In compliance with Section 406 of the Sarbanes-Oxley Act of 2002 (SOX), the Securities and Exchange Commission (SEC) issued a January 2003 rule requiring all SEC registrants to disclose whether the registered company has adopted a code of ethics for the issuer's senior financial officers and if one has been adopted, the code's contents (17 CFR Parts 228, 229)[1]. If a code of ethics has not been adopted, the reason for not adopting a code must be disclosed. The rule also defines the term *code of ethics* and states how the company's code of ethics should be made available to the public. Some companies may choose to meet the SEC's rules by adopting separate codes of conduct for senior financial officers, and others may choose to modify existing codes to incorporate SEC mandates. Because of the expected increased availability of company's codes of ethics on the web and the lack of information about the commonalities and differences between codes of ethics, this paper begins a stream of research that examines and compares codes of ethics across industries and corporations. These types of descriptive studies can benefit academics teaching business ethics, companies seeking to refine and improve their codes of ethics by benchmarking the codes of others, as well as provide a starting point and guidance for businesses developing codes of ethics for the first time.

The research begins with a brief review of the literature on writing codes of ethics, and then compares different codes of ethics in the manufacturing industries of guided missile and space vehicle (NAICS 336414) and rubber and plastics footwear (NAICS 316211) [17]. The industries were selected because of the significant difference in the products being manufactured. Although both industries include publicly traded companies, being in an industry involving significant United States government contracts manufacturing in the United States should impose significant ethics challenges for the missile and space vehicle manufacturing industry. The rubber and plastics footwear industry without the reliance on significant government contracts should also have significant ethics challenges as a result of global manufacturing practices in countries with significant differences in ethical standards. The examination of

the codes of ethics in these two industries identifies significant industry specific differences in codes of ethics, as well as commonalities across industries and companies.

WRITING CODES OF ETHICS

What is a code of ethics? According to Shapiro's article in Inc.com, a code of ethics consists of principles and values that a business believes in and wants to guide the way the business functions. The code may be based on the business's core values or mission and may provide detailed information about how employees, business partners, and vendors should behave when working with or on behalf of the company [20]. If codes of ethics capture core values and/or general societal ethical concerns, then there should be common topics across companies' and professional organizations' code of ethics. However, what may be an important issue to one company may not be important or apply to another company or industry.

When faced with having to write a code of ethics, companies may seek the codes of ethics for companies respected by management or seek out topic experts who provide models, such as the issues and the stakeholder models. The Center for the Study of Ethics in the Professions at the Illinois Institute of Technology (IIT) uses the issues model in its "Index by Code Provision." The index lists several common issues and the names of professional organizations, societies, and a few companies (Coca Cola Company and Intel) which include the identified issues in their codes of ethics. The common issues include academic ethics, authorship, sustainable development and environmental ethics, gifts and gratuities, privacy, and professional competence. Other key areas identified on the list include conflicts of interest, and use of company assets [14]. In "Developing an Effective Code of Ethics: Contents of a Code of Ethics," the Institute of Business Ethics extends the list. Additional issues include how the organization competes, bribery and facilitation payments, safeguarding important information, human rights, and timely payments to suppliers [12].

The stakeholder's model is also described by the Institute of Business Ethics. Instead of focusing on an organization's issues when writing a code of ethics, the stakeholder model centers on the stakeholder's concerns. Stakeholders include employees, customers, shareholders, suppliers, and society. The Institute suggests including instructions on how to use the code, an ethical decision-making framework, suggestions for code implementation and reinforcement, and how to assess the code's effectiveness [12].

Although the SEC's mandated code of ethics (issues model) for senior financial officers of publicly traded companies is tailored for financial reporting, it could be slightly modified to serve as the code of ethics for most entities. The SEC defines a code of ethics as written standards that are reasonably designed to deter wrongdoing and to promote (17 CFR Parts 228, 229) [1]:

1. Honest and ethical conduct
2. Avoidance of conflicts of interest
3. Full, fair, accurate, timely and understandable disclosure in public and SEC related communications
4. Compliance with applicable governmental laws, rules, and regulations
5. The prompt internal reporting of any violations in the code
6. Accountability for adherence to the code

When writing a code of ethics, Shapiro warns that companies must determine the appropriate level of detail for the code [20]. Should the code be a brief statement that is easy to read and understand or a detailed document containing desirable and undesirable behaviors? Take for example the code of ethics

for Mary Kraft Staffing and HR Solutions in Maryland. The company's one page code of ethics consists only of seven statements [9]. Kraft Food Company's Code of Conduct consists of 10 rules communicated in an easy to read 15-page document that is colorful and uses a large size font and straightforward language [16]. Wal-Mart's "Statement of Ethics" is basic but yet detailed. The 36 page document provides the company's three basic beliefs and guiding principles which guide the expected behaviors of its employees [22]. Similar to Wal-Mart, Coca-Cola's 49-page "Code of Business Conduct" begins with its five guiding principles and then provides expected behaviors [4]. Boeing has a one page code of conduct [2] which is supported by the more detailed 37 page "Ethical Business Conduct Guidelines [13].

Codes of ethics (or conduct) will vary depending upon a company's management perception of what it needs in order for management, board members, employees, vendors, and business partners to behave in ways that benefit the company, but are still considered ethical. In Bullock and Panicker's 2003 study of scientific societies' codes of ethics, the authors found that the codes were broader and more general (breadth) when the society's members and their activities were more diverse. Conversely, depth describes the level of detail in the code [3]. The Lockheed Martin "Setting the Standard- Code of Ethics and Business Conduct" [19] has much more depth to it than the code of ethics for Mary Kraft Staffing and HR Solutions [9]. Bullock and Panicker speculate that the depth of a society's code is affected not only by the diversity of the membership's activities, but also the amount of regulation affecting the society membership [3]. The American Institute of Certified Public Accountants' (AICPA) "Code of Professional Conduct" is an example of a code of an extremely detailed code for association members. AICPA members are highly regulated by state licensing boards and who must also comply with regulatory agencies such as the SEC and the Public Company Accounting Oversight Board (PCAOB). The AICPA's code for its members includes basic principles and detail guidance supporting the principles. The complex and highly detailed rules are in place to help protect the profession's valued reputation in the market place and support the profession's self-regulation processes [11].

The codes of ethics also vary greatly according to the industry and a company's mission, such as the differences between Lockheed Martin [19] and Nike [15]. Lockheed Martin makes defense and military equipment and Nike produces shoes and other sports attire for consumers. Since Lockheed Martin designs and manufactures its product under government security, it manufactures in the US. Nike contracts with non-US factories to manufacture its products. Nike calls its code of ethics that applies to all employees "Inside the Lines". In addition they have a "Code of Conduct" that applies all the manufacturers around the world who produce the Nike brand, as well as a "Code of Conduct" for those who produce the affiliated brands, such as Cole Haan [18]. Because of industry differences, Lockheed Martin and Nike do not share the same ethical issues and concerns [19][15][18].

For example, some of the items on Nike's Code of Conduct for its international contractors [18], which do not apply to Lockheed Martin [19], include:

- Employees are age 16 or older
- Compensation is timely paid
- Working hours are not excessive (specified as not over 60 hours per week)

However, several issues apply to both companies' code of ethics, such as:

Lockheed Martin	Nike
Maintain a safe and healthy work environment	The workplace is healthy and safe
Zero tolerance for discrimination and harassment	Contractor does not discriminate

STUDY DESCRIPTION

In addition to Lockheed Martin and Nike, the study includes eight other firms, the five largest companies (based on revenue) in each of the two industries as defined by the 2007 North American Industry Classification System (NAICS) codes, the Office of Management and Budget's system for classifying North American business entities in North America. The NAICS codes replaced the Standard Industrial Classification System (SIC) [17]. Companies from Lockheed Martin's NAICS code 336414 (Guided Missile and Space Vehicle Manufacturing) included in the study are Boeing [13], United Technologies [10], Northrup Grumman [21], and Honeywell [5]. From Nike's NAICS code 316211 (Rubber and Plastics Footwear Manufacturing), the other firms included in the study are VF [6], Polo Ralph Lauren [8], Phillips-Van Heusen [7], and Levi Strauss [23]. For descriptive purposes, the two NAICS codes are referred to as *Defense Manufacturing* and *Sportswear*, respectively. Except for Levi Strauss, all companies are publicly traded. All ten of the companies had their codes of ethics posted on their website which cover, at a minimum, all directors, officers, executives, board of director members, and all other employees.

RESULTS

The codes of ethics (or conduct) available on the websites of the 10 companies in the defense manufacturing and sportswear industries (NAICS Code Sections 336414 and 316211, respectively) were companywide codes [17]. If the companies had separate codes of ethics for senior financial officers, the company-wide codes were not required to be in compliance with the SEC's code of ethics requirements (17 CFR Parts 228, 229) [1]. Compliance with the SEC requirements is not addressed by this study.

Table 1 gives a list of the various content items that the sample companies chose to include in their general codes of ethics. Also, the codes studied reflect a particular point in time as shown in the References. Companies continually review and update their codes of ethics based on various factors in their company, the industry, and the global economy. Because the wording varied between the ten firms, there is some interpretation applied in distinguishing similarities and differences, which could be the subject of a future paper.

Code Structure

The company codes are expected to be followed by board of director members, officers, directors, employees, and often other parties who represent the organization or company suppliers. However, document length, level of detail and references to additional documents vary across industries and companies per Table 2. Table 2 summarizes the characteristics of code structure by company and industry. Due to various wording and organization in the 10 codes of conduct, an extensive comparison becomes complex and beyond the scope of this paper.

The code length ranged from 7 to 48 for all 10 companies. The sportswear companies tended to be shorter with a range of 7 to 32 pages. The page length range for the defense manufacturers' codes was 17 to 48. Three sportswear companies had codes of less than 10 pages (Polo Ralph Lauren, VF, and Phillips-Van Heusen) with Nike and Levi Straus having codes of 32 and 20 pages, respectively. In contrast, the defense manufacturers average page length was 32, over double that of the sportswear companies' average length of 15 pages. All five of the defense manufacturers' codes were longer than the sportswear company 15-page average. Honeywell had the longest code length of 48 pages.

Table 2 reports the number of content items included in each company's code, while the codes for the 10 companies include similar, as well as different issues and concerns as identified in Table 3. The number

of content items range from 13 to 20 for all of the companies and for each industry. In general, the defense manufacturers tend to have more items than the sportswear companies. The average number of items for the defense manufacturers and sportswear companies are 18 and 16, respectively.

TABLE 1 –CODE OF CONDUCT CONTENT ITEMS

	Component Description		Component Description		Component Description
1	Business courtesies (gifts, entertainment, kickbacks)	12	Waivers and amendments	22	Loans to directors, officers, and employees
2	Conflicts of interest	13	Fair dealing (supplier related)	23	Desired company culture
3	Corporate opportunities	14	Anti-trust	24	Mandatory ethics training
4	Confidential information	15	Political activity	25	Whistleblower retaliation
5	Use of company systems and assets	16	Good citizenship	26	Cooperation with investigations
6	Use of company information	17	Agents, consultants and other third parties	27	International activities
7	Disclosures & fraud	18	Social responsibility	28	Government contracts
8	Accounting and reporting	19	Product Safety	29	Parties covered by the code
9	Treatment of others	20	Company credit card use	30	Decision-making process
10	Working environment	21	Related to family members	31	Factors considered in the decision-making process
11	Code enforcement and violations				

For more information and clarity, all but two of the codes of ethics refer to documents external to the codes. The documents include corporate legal procedures and various corporate policy statements, in areas such as environmental, social responsibility, and sustainability. For example, United Technologies' Code provides a list of four situations which could result in a conflict of interest. The code also references a more detailed policy statement on conflicts of interest. The two codes without references to additional documents are Boeing and VF.

TABLE 2 – CODE OF ETHICS STRUCTURE

	Defense Manufacturing					Sportswear				
Company	LM [19]	B [13]	UT [10]	NG [21]	H [5]	PRL [8]	VF [6]	N [15]	LS [23]	PVH [7]
Length of document in pages	38	37	19	17	48	7	9	32	20	7
Number of different code content items (listed in Table 1)	20	20	18	13	21	13	17	17	20	14
References additional company documents	Y	N	Y	Y	Y	Y	N	Y	Y	Y

Company Abbreviations:

LM: Lockheed Martin, B: Boeing, UT: United Technologies, NG: Northrup Grumman, H: Honeywell
PRL: Polo Ralph Lauren, VF: VF, N: Nike, LS: Levi Strauss, PVH: Phillips-Van Heusen

Y: Yes, N: No

Common Issues

The codes for all 10 of the companies address with varying levels of detail conflicts of interest, gifts, entertainment, and other payments (such as kickbacks), financial reporting related topics, and cost accountability. All 10 of the companies discuss avoiding actual or potential personal conflicts of interest. Personal conflicts of interest are defined as conflicts between the best interest of the employee and the company's best interest. The individual companies vary in the topics discussed in the conflicts of interest area. Four of the sportswear companies (all except VF Corporation) and four of the defense manufacturers (all but Lockheed Martin) extend the conflict of interest policy to the immediate family of the employee. The codes for VF Corporation and Nike specify that the employee should not own stock or have an investment with a supplier, customer, or contractor. All five of the defense manufacturers allow non-significant ownership. Levi Strauss and Philips Van-Heusen state that the employee cannot be simultaneously employed by a competitor, customer, or supplier while the defense manufacturers may allow certain outside employment if properly approved.

The defense manufacturers provide details in the area of gifts, entertainment, and other payments, especially for those involving government officials and employees. For example, Lockheed Martin's code includes the allowable dollar amounts for gifts and entertainment and explicit rules about interactions with government and nongovernment persons. Boeing's broader discussion refers the reader to the U.S. Government Standards of Conduct and rules for procuring products and services. The code for United Technologies references the specific guidelines and requirements for interacting with the government. Honeywell makes a point of stating that gifts and business entertainment may result in conflicts of interest. All of the sportswear companies address gifts in some way, but the Philips Van-Heusen code only addresses gifts to U.S. government personnel and foreign government officials. While VF also prohibits gifts to government officials, Nike, Levi Strauss, and Polo give specific policies related to foreign governments. For the sportswear companies, only Polo and Nike give dollar limits for gifts given or received.

Financial reporting is a fairly broad category. The codes for United Technologies and Honeywell explicitly state that public and SEC related communications will be full, fair, accurate, timely and include understandable disclosures. The codes for Polo and VF specify that they will meet all SEC reporting requirements. All 10 companies address the need for accurate accounting, especially in the area of recording costs, a key concern in government contracting.

TABLE 3 – EXAMPLE SIMILARITIES AND DIFFERENCES IN CODES OF ETHICS

Company		Defense Manufacturing					Sportswear				
		LM [19]	B [13]	UT [10]	NG [21]	H [5]	PRL [8]	VF [6]	N [15]	LS [23]	PVH [7]
1	Conflicts of Interest	X	X	X	X	X	X	X	X	X	X
2	Gifts, Entertainment and Other Payments	X	X	X	X	X	X	X	X	X	X
3	Financial Reporting	X	X	X	X	X	X	X	X	X	X
4	Code Accountability	X	X	X	X	X	X	X	X	X	X
5	Political Interactions	X	X	X	X	X		X	X	X	
6	Government Interactions (Federal)	X	X	X	X	X					
7	Loans to Officers, Directors, and Employees					X				X	

Company Abbreviations:

LM: Lockheed Martin, B: Boeing, UT: United Technologies, NG: Northrup Grumman, H: Honeywell
PRL: Polo Ralph Lauren, VF: VF, N: Nike, LS: Levi Strauss, PVH: Phillips-Van Heusen

The last issue common to all of the codes, code accountability, requires all covered parties to report violations and puts code violators on alert that disciplinary actions may follow. The codes also indicate whom parties should consult if additional guidance is needed. All 10 companies included accountability in their codes.

Differences in Issues

Table 3 provides three examples of content areas which are not included by all of the companies: political interactions, government interactions and loans to officers, directors, and employees. Political interactions include political contributions and lobbying activity. All five of the defense manufacturers require individuals subject to the code to comply with the laws governing political contributions. Lobbying activities are restricted to those authorized to do so. Unlike the other four manufacturers, United Technologies' code expressly encourages all employees, directors and officers to be informed voters. VF, Nike, and Levi Strauss also include political activity in their codes, with all three forbidding the use of company funds or company time for political activity.

Although all 10 companies require compliance with local, federal, and international laws, only the five defense manufacturers expand on the laws that govern them. As mentioned in the previous section, the manufacturers' codes all require compliance with the federal government's requirements for gifts and entertainment (see Table 3). Lockheed Martin includes the specific dollar limits for gifts and entertainment involving government employees and officials. Boeing includes information about interacting with government employees about potential employment or contract hiring. Honeywell's code prohibits hiring third parties to make improper government payments.

The last issue addressed in this study involves loans to officers, directors, and employees. Only Honeywell and Levi Straus address the issue of loans. Honeywell prohibits loans from any entity or individual who does business with Honeywell. None of the defense manufacturers specifically address loans to any third parties. The Levi Strauss policy applies to loans from the company to the employee and requires approval in writing by the Senior Vice President, Worldwide Human Resources and by the Chief Financial Officer. Levi Strauss was the only private company in the study set, which may explain why they are the only company that would have any provision for employee loans.

SUMMARY, CONCLUSIONS AND ISSUES FOR FURTHER RESEARCH

This paper provides a brief overview and literature review of the issues a company might consider and approaches for writing or reviewing a corporate code of ethics, including consideration of the SEC requirements for publically traded companies. In order to compile a fairly broad list of ethical issues, the paper lists the code of conduct items found in the review of five companies in each of two dissimilar industries, guided missile and space vehicle manufacturing (defense) and rubber and plastics footwear manufacturing (sportswear). For example, obvious differences were that the defenses industry has more government interaction and the sportswear industry has more international manufacturing subcontractors or suppliers.

The structure of the ten codes of ethics are compared based on the length of the document in pages, number of different code components, and whether the code referenced additional company documents, such as codes for top executives and financial officers, or social responsibility codes. The paper also provides some examples of issues where there were similarities between all the codes, such as conflicts of interest and financial reporting. A firm must consider the specific industry and company situation when preparing their code of ethics, but the information here provides a basis for comparison.

This study can then be expanded several ways. First, Table 3 only compares seven of the 31 items listed in Table 1, so a more detailed comparison of the similarities and differences would be appropriate. The codes of ethics were broadly interpreted, with similar wording subjectively grouped together, leaving an opportunity for a more detailed analysis of the variety of wording. The study could also be expanded to include additional companies or other industries. As mentioned above, most of the codes of ethics referred to other documents, but this study did not include the related documents, which could either resolve differences (with issue being included elsewhere) or result on more differences (with new issues included in the other documents). Another extension would be a detailed analysis of how each of the public companies addresses the SEC mandates regarding codes of ethics.

REFERENCES

- [1] “17 CFR Parts 228, 229, 249” *U.S. Securities and Exchange Commission*. Jan. 2003. Web. 13 Oct. 2011
- [2] “Boeing Code of Conduct” *Boeing*. Jan. 2012. Web. 14 June 2012
- [3] Bullock, Merry and Sangeeta Panicker. “Ethics for All: Differences Across Scientific Society Codes” *Science and Engineering Ethics* 9.2 (2003):159-170.
- [4] “Code of Business Conduct” *The Coca-Cola Company*. April 2009. Web. 25 Sept. 2011
- [5] “Code of Business Conduct” *Honeywell*. n.d. Web. 14 June 2012
- [6] “Code of Business Conduct” *VF Corporation*. Dec. 2006. Web. 13 June 2012
- [7] “Code of Business Conduct and Ethics” *Phillips-Van Heusen Corporation*. April 27, 2006. Web. 13 June 2012
- [8] “Code of Business Conduct and Ethics” *Polo Ralph Lauren Corporation*. n.d. Web 13 June 2012
- [9] “Code of Ethics” *Mary Kraft Staffing and HR Solutions*. n. d. Web 25 Sept. 2011
- [10] “Code of Ethics” *United Technologies*. n. d. Web. 14 June 2012
- [11] “Code of Professional Conduct” *American Institute of CPAs*. Nov. 2011. Web. 25 Sept. 2011
- [12] “Developing an Effective Code of Ethics: Content of a Code of Ethics” *Institute of Business Ethics*. n. d. Web. 25 Sept. 2011
- [13] “Ethical Business Conduct Guidelines” *Boeing*. n. d. Web. 14 June 2012
- [14] “Index by Code Provision” *Center for the Study of Ethics in the Professions at IIT*. n. d. Web. 25 Sept. 2011
- [15] “Inside the Lines – The Nike Code of Ethics” *Nike, Inc*. Oct. 26, 2011. Web. 13 June 2012.
- [16] “Our Way of Doing Business- The Kraft Foods Code of Conduct” *Kraft Foods Company*. March 2009. Web. 25 Sept. 2011
- [17] “North American Industry Classification System” *United States Census Bureau*. 17 May 2012.
- [18] “Nike, Inc. Code of Conduct” *Nike*. Aug. 2010. Web. 10 Oct. 2011
- [19] “Setting the Standard- Code of Ethics and Business Conduct” *Lockheed Martin*. Sept. 2011. Web. 14 June 2012.
- [20] Shapiro, Josh. “How to Write a Code of Ethics for Business” *Inc*. Feb.24, 2010. Web. 25 Sept. 2011
- [21] “Standards of Business Conduct” *Northrop Grumman*. Sept. 2001. Web. 14 June 2012
- [22] “Walmart Statement of Ethics” *Walmart*. Sept. 2008. Web 25 Sept. 2011
- [23] “Worldwide Code of Business Conduct” *Levi Strauss*. October 14, 201. Web 13 June 2012