

CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY ISSUES IN CODE OF ETHICS*

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ABSTRACT

In the last decade, a growing number of companies are disclosing corporate codes with diverse contents. The aim of this paper is to discuss code of ethics within the framework of corporate social responsibility and corporate governance. According to the recent principles issued by international organizations such as United Nations, OECD and previous research, companies state information about environment, social and governance policies in their code of ethics reports. In this respect, a content analysis was conducted among the codes of ethics of companies listed in Sustainability Index of Borsa Istanbul. The most highlighted topics in ethical codes of Turkish companies are; relationship with dealers, gift giving and gift taking. In automotive industry companies issue longer and more comprehensive ethical codes when compared with companies in other industries. The results of the study reveal that the content of the codes of ethics practices of companies is highly diversified due to the company, industry and country related factors.

Keywords: Corporate Governance, Code of Ethics, Corporate Social Responsibility, BIST Sustainability Index, Content Analysis

JEL Classification: M14, M40

ETİK KODLARDA KURUMSAL YÖNETİM VE SOSYAL SORUMLULUK KAVRAMLARI

ÖZ

Son yıllarda giderek artan sayıda şirket tarafından farklı içerikte etik kodlar yayınlanmaktadır. Bu çalışmanın amacı, etik kodları kurumsal sosyal sorumluluk ve kurumsal yönetim çerçevesinde

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tartışmaktır. Birleşmiş milletler ve OECD gibi uluslararası organizasyonlar tarafından yayınlanan son ilkeler ve mevcut akademik çalışmalara göre, şirketlerin etik kodlarında, çevre, sosyal ve kurumsal yönetim konuları yer almaktadır. Bu çerçevede, Borsa İstanbul Sürdürülebilirlik Endeksinde yer alan şirketler tarafından yayınlanan etik kodlar, içerik analizi ile incelenmiştir. Araştırmanın yapıldığı dönemde Türkiye'deki şirketlerin etik kodlarında, tedarikçilerle olan ilişkiler ile hediye alma ve verme hususları en çok üzerinde durulan konular olmuştur. Otomotiv sektöründe yer alan şirketler diğer sektörlerde yer alan şirketlerden daha uzun ve kapsamlı etik kodlar yayınlamaktadırlar. Analiz sonuçlarına göre etik kodların içeriği şirket, sektör ve ülke faktörlerine göre farklılık göstermektedir. Çalışmanın sonuçları önceki araştırmalar ile benzerlik göstermektedir.

Anahtar Kelimeler: Kurumsal Yönetim, Etik Kod, Kurumsal Sosyal Sorumluluk, BIST Sürdürülebilirlik Endeksi, İçerik Analizi

JEL Sınıflandırması: M14, M40

1. INTRODUCTION

A growing number of companies are issuing codes of ethics with different contents. As Werhane (2000) states, ethical issues have been discussed starting with Code of Hammurabi since 1800 B.C. The first neo-classical political economist, Adam Smith, one of the earliest defenders of private free enterprise, argues precisely against separation of ethics from economics, commerce or political economy. He was highly critical of joint stock companies and was quite well aware of agency problems (Werhane, 2000).

According to Carasco and Singh (2003) there are several reasons for the growing importance of corporate codes. An ethics code is a communication and disclosure tool for sending the right message about good business practices, internally and externally and thought to enhance corporate reputation and brand image. Internally, a corporate code of ethics can help to create corporate culture to operationalize its values both for local and multinational companies. Externally, code of ethics serves the purpose of signaling to shareholders, activists, and the media that a company is committed to ethical behavior so that in times of crisis can help avoiding sanctions and litigation.

It was argued that financial performance should be supported by corporate social responsibility¹ (CSR) and corporate governance practices due to the failures of once financially strong companies. The fundamental reason relying under the collapse of Barings Bank, Enron,

¹ Many authors in this field consider it synonymous with sustainability.

Parmalat and many other big companies was the unethical behaviors of the employees, board of directors, CEO or auditors. The aim of this paper is to discuss the importance of code of ethics in terms of corporate social responsibility and corporate governance framework. In this respect, a content analysis was conducted among the codes of ethics of companies listed in Sustainability Index of Borsa Istanbul. Code of ethics is surveyed within the framework of CSR in part two and corporate governance in part three. In the fourth part, the related research is reviewed. Research methodology and the results are provided in the fifth part.

2. CODE OF ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

According to Carroll (1999), “The corporate social responsible firm should strive to make a profit, obey the law, be ethical and be a good corporate citizen.” Corporate social responsibility has four components: economic, legal, ethical and philanthropic. These categories are related with shareholders, customers, employees, suppliers and neighboring communities (Jones, 1980).

As stated by the ten principles of the UN Global Compact (2016), corporate sustainability starts with a company’s value system and a principled approach to doing business. Operations of the responsible businesses, at a minimum, meet fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption.

Many companies have adopted measures designed to comply with the law and standards of business conduct, and to enhance the transparency of their operations. A growing number of firms have issued voluntary codes of corporate conduct, which are expressions of commitments to ethical values in such areas as environment, human rights, labor standards, consumer protection, or taxation. Companies are there encouraged to communicate value statements or statements of business conduct to the public, including information on the social, ethical and environmental policies of the enterprise and other codes of conduct to which the company subscribes. For instance, are cooperating with NGOs and intergovernmental organizations like the Global Reporting Initiative (GRI) to develop reporting standards in communicating the activities about sustainable development outcomes (OECD, 2011).

In G4 Sustainability Reporting Guidelines issued by GRI (2015), ethics and integrity of companies is presented under general standard disclosure. Pursuant to these guidelines, codes of conduct and codes of ethics describe the organization’s values, principles, standards and norms of behavior. Guidelines cover the identification of how the organization’s values, principles,

standards and norms of behavior (such as codes of conduct, codes of ethics) have been developed, approved, and implemented.

Stohl et al. (2009) suggested that the codes of ethics of the most advanced companies should evolve to the “third generation ethics”, which focuses on the long-term perspective and on the global, social and environmental aspects of corporate responsibility sensibility. Given the growing concern for social responsibility and for the relationship with external stakeholders, researchers explore whether the codes of the most respectable and admired companies reflect this trend. For instance, codes of ethics contain a set of rules of conduct and corporate principles concerning the responsibility to stakeholders and shareholders, which help guide corporate and employees’ behavior, and they constitute verifiable elements of social responsibility (Calderon et al. 2012).

3. CODE OF ETHICS AND CORPORATE GOVERNANCE

Corporate governance deals with the agency problem, which is the separation of management and finance (Shleifer and Vishny, 1997). The adoption of appropriate corporate governance practices has an essential role in fostering a culture of ethics within enterprises (OECD, 2011). Corporate governance should protect and facilitate the rights of all shareholders and stakeholders providing effective monitoring of management by the board, and the board’s accountability to the company and shareholders (OECD, 2015). In this part, OECD Principles of Corporate Governance will be used as a framework since the principles are used as basis for the regulations issued by Capital Markets Board (CMB) in Turkey. According to the new OECD Principles (2015), there are five fundamental components of corporate governance: i. Shareholders, ii. Institutional Investors (including stock markets and other intermediaries), iii. Stakeholders, iv. Disclosure and Transparency, v. Board of Directors.

As corporate governance principles aim to promote ethical, responsible and transparent practices continuously consulting with the public, all shareholders and stakeholders should have the opportunity to obtain effective feedback for violation of their rights. A strong disclosure regime promotes real transparency which informs shareholders about their rights and helps to attract capital while a weak disclosure and non-transparent practices can cause to unethical behavior and to a loss of market integrity. The corporate governance framework requires timely and accurate disclosure on all material matters regarding the corporation, including the financial

situation, performance, ownership, and governance of the company. Disclosure regime should include corporate policies and performance with respect to environmental and ethical standards, and companies' relationships with the communities in which they operate (OECD, 2015).

There are various reporting formats used for transparency and disclosure principle. Information about the financial situation and performance of the company is disclosed in the audited financial reports. Financial and non-financial information regarding competitive assets and strengths like human resources capital, market position, customer loyalty is presented in annual reports (Esendemirli and Saygili, 2014). Environmental, social and governance (ESG) related performance of the companies is communicated through CSR reporting practices. Corporate principles and rules of conduct related with the responsibility to stakeholders and shareholders are disclosed in code of ethics (Calderon et al., 2012).

In OECD corporate governance framework (2015), board has fundamental responsibilities requiring high ethical standards for strategic guidance of the company, monitoring and managing potential conflicts of interest of management, board members, shareholders and stakeholders. The board is accountable to shareholders and stakeholders of the company and has a key role in setting the ethical tone of a company for daily operations and long-term commitments. Many companies developed company codes of conduct, widely known as codes of ethics to make the objectives of the board clear, applicable and to communicate them throughout the organization. Company-wide codes serve as a standard in dealing with conflicting situations and the ethical code should set clear limits on the pursuit of private interests, including dealings in the shares of the company. An overall framework for ethical conduct goes beyond compliance with the law, which should always be a fundamental requirement (OECD, 2015). Further, the board should encourage the reporting of unethical/unlawful behavior. The audit committee or an ethics committee should offer a contact point for employees who wish to report concerns about unethical or illegal behavior that might compromise the integrity of financial statements.

4. LITERATURE REVIEW

In this part, the results of the recent studies regarding social responsibility and governance content of the corporate codes will be reviewed. Previous studies indicate that the content of the corporate codes changes due to the country and industry related factors. The comparative study

conducted by Langlois et al. (1990) reports that there are striking differences in content between U.S. and European codes of ethics in particular with regard to employee conduct, supplier and contractor relations as well as political interests. Further, differences in the contents of codes also exist between the European countries. France, for example, stands out with 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. Carasco and Singh (2003) examined the content and focus of transnational corporate codes of ethics. It was found that codes of ethics of corporations demonstrate concerns both on behalf of the firm and against the firm, but issues relating to the latter play a larger role in the codes.

There are different viewpoints in the code of ethics research stream. Some authors (Schwartz, 2002) analyze the ethical and moral content of the codes. While others search different topics which are communicated and promoted in ethics statements for outside users (Murphy, 2005). Stohl et al., (2009) described third generation with contents related to corporate social responsibility and governance. This study analyses the third generation ethics.

The results of the study conducted among the 2009 *Most Admired Companies of the World* show that codes of ethics resemble “codes of conduct” rather than strictly codes of ethics or “codes of corporate social responsibility” (Calderon et al., 2012). They are still governed by traditional norms related to immediate economic success, normative compliance, internal management and the pressing effects of their sector. Davidson and Stevens (2013) find that when the code is certified by management it enhances the potential for the code to activate ethical behavior as the norm and an increase in investor confidence. Due to the recent regulation issued by Capital Markets Board of Turkey (2014) companies should operate within ethical standards stated in the communique. Further companies should disclose ethical standards on the websites. Tanc (2015) identified that 44 percent of the manufacturing companies listed in BIST, disclosed ethical rules on their web sites.

Garegnani et al. (2015) identified the following quality drivers and related factors for scoring codes of ethics: commitment from the top, style and availability, whistle-blowing, relations with stakeholders, compliance procedures and legal items. Bodolica and Spraggon (2015) explore the disclosure trends and examine the contents of codes of ethics in the context of Canadian publicly listed acquirers. The results indicate that code of ethics’ patterns in sample

firms are not driven merely by regulatory forces but shaped by values for sustainable corporation, so there is an emerging trend of commitment to social responsibilities.

5. METHODOLOGY

Borsa Istanbul (BIST) has signed a Corporation agreement with Ethical Investment Research Services Limited (EIRIS) to create BIST Sustainability Index. BIST Sustainability Index provides a benchmark for Borsa Istanbul companies with high performance on corporate sustainability and to increase the awareness, knowledge and practice on sustainability in Turkey. EIRIS evaluated BIST 30 Index firms in 2014 and BIST 50 Index firms in 2015. Starting from the 2016, the volunteer firms from BIST 100 Index are also evaluated. On the day of the study, 29 companies were listed in BIST Sustainability Index based on the international sustainability criteria. The codes of ethics contain a set of rules of conduct and corporate principles concerning the responsibility to stakeholders and shareholders. BIST Sustainability Index companies for the period between November 2015 and October 2016 were the sample for this research. There were 29 companies in the list but companies operating in banking and financial sectors were not included in the research. As a result, the study covered 20 companies presented in Table 1.

Table 1. Profile of Companies

No	Name of the Firm	Title	Index	Sector	No	Name of the Firm	Title	Index	Sector
1	Arcelik	ARCLK	BIST 30	Consumer Durables	11	Otokar	OTKAR	BIST 30	Automotive
2	Anadolu Efes	AEFES	BIST 50	Food & Beverage	12	Petkim	PETKM	BIST 30	Petrochemicals
3	Aksa Energy	AKSEN	BIST 50	Energy	13	TAV	TAVHL	BIST 30	Transportation
4	Aselsan	ASELS	BIST 50	Defen. Electr. Syst.	14	Turkcell	TCELL	BIST 30	Telecom
5	Brisa	BRISA	BIST 50	Motor Vehicles	15	THY	THYAO	BIST 30	Transportation
6	Coca Cola	CCOLA	BIST 30	Food & Beverage	16	Tofaş	TOASO	BIST 30	Automotive
7	Doğuş Otomotiv	DOAS	BIST 50	Automotive	17	Türk Telekom	TTKOM	BIST 50	Telecom
8	Ereğli Demir Çelik	EREGL	BIST 30	Steel & Metal	18	Tüpraş	TUPRS	BIST 50	Petrochemicals
9	Ford Otosan	FROTO	BIST 30	Automotive	19	Ülker Bisküvi	ULKER	BIST 30	Food & Beverage
10	Migros Ticaret	MGROS	BIST 50	Retail	20	Vestel	VESTL	BIST 50	Consumer Durables

In the first step of the analysis, *code of ethics document* in English was downloaded from corporate websites. 17 companies had a pdf file about *code of ethics* on their websites. Two

companies (TAV and Brisa) did not have any specific file as code of ethics, while there was information on their web sites under the code of ethics subtitle. In addition, one company (Aselsan) did not have any specific information or file about code of ethics.

The companies had different range of length from 3 pages to over 20 pages (the average page number is twelve). The total number of pages for 19 firms' codes of ethics documents was 229. Table 2 shows number of pages for code of ethics documents on industrial basis.

Table 2. Code of Ethics Practices of Different Industries

Business Category	Percen.	Page Num.	Business Category	Percen.	Page Num.
Automotive	20%	66	Steel &Metal	5%	11
Food & Beverage	15%	54	Motor Vehicles	5%	11
Consumer Durables	10%	7	Retail	5%	17
Telecom	10%	23	Energy	5%	9
Transportation	10%	20	Defense System	5%	3
Petrochemicals	10%	11			

Table 2 reveals that the sample covers a wide range of sectors such as; 20% automotive, 15% food & beverage, 10% consumer durables, 10% transportation, 10% petrochemicals. Content analysis was used to understand the ethical policies of the 19 companies. Codes of ethics were analyzed in order to identify specific words, concepts and terms. The main categories were provided by the dimensions of Murphy (2005) presented in Table 3. Based on his work, there are 12 dimensions such as; gift (giving/receiving), bribery/grease payments, workforce diversity, competitive intelligence, safety, working condition, environmental problems, relationship with dealers, human rights, international issues, advertising and product safety. Pertinent / Industry specific issues are not included due to the limited number of observations.

Table 3. Dimensions of Code of Ethics

Dimensions	Number of Words	2016 Turkey (%)
Relationship with Dealers	168	95
Gift (giving/receiving)	137	95
Working Conditions	63	53
Competitive Intelligence	60	84
Environmental Problems	42	89
Workforce Diversity	29	47
International Issues	26	63
Bribery/Grease Payments	23	58
Advertising	23	63
Human Rights	18	74
Product Safety	4	21
Selling price	3	16

Codes that included these 12 dimensions were identified and assessed to understand ethical policies of the companies. Frequency count of the keyword “ethics” across all reports indicated that 18% of the companies covered ethical issues in the codes. The words honesty, confidence and responsibility were the common dimensions in all codes of 19 firms. Table 3 presents the analysis results of reports based on the 12 dimensions proposed by Murphy (2005). As seen in table, *relationship with the dealers* dimension is the most frequently used word. Then sequentially, gift giving/receiving, working conditions and competition were the most frequently used words. Product safety was the least emphasized dimension in the reports.

6. CONCLUSION

A growing number of companies are disclosing corporate codes with diverse contents, in the last decade. The present research surveys the content of code of ethics within the framework of corporate social responsibility and corporate governance. Recent discussions about company codes and principles issued by international organizations reveal that code of ethics is a corporate tool for disclosing environmental, social and governance policies. The content of the codes of ethics practices of companies is highly diversified due to the company, industry and

country related factors. In this respect, a content analysis was conducted among the codes of ethics of companies listed in Sustainability Index of Borsa Istanbul.

In this study, a sample of BIST Sustainability Index is used to analyze the content of the ethical codes based on 12 important dimensions proposed by Murphy (2005). Although code of ethics is not a requirement for listing in BIST sustainability index, the adoption and public diffusion of an official ethical code is important for listed companies due to their larger size and greater role in the marketplace (Bodolica and Spraggon 2009). The results of the study indicate that despite being in BIST Sustainability Index, Aselsan has no information about ethical rules. Additionally, TAV and Brisa do not have a specific document about code of ethics in their corporate websites. The most highlighted topics in ethical codes of Turkish companies are; relationship with dealers, gift giving and gift taking. In automotive industry companies issue longer and more comprehensive ethical codes when compared with companies in other industries. This study has the same results with previous studies stating that corporate codes are diversified due to company, industry and country related factors.

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