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Ethik in der Ökonomie

Economic sociologists lack coherent theories concerning how ethical disputes arise within economic life, and what effects their management has on organizational performance. Using formal codes of ethics within firms as its disciplined focus, we can develop a preliminary conceptualization of ethics in organizations, a series of hypotheses about how codes work, and a preliminary sketch of a reesearch program that follows from these principles.

Keywords: Ethics, Codes, Enforcement, Organizational Performance

1. Introduction

In 2003, an ailing Boeing corporation brought back from retirement former president Harry Stonecipher to turn the company around. Amid a flurry of reforms, the now CEO Stonecipher installed a code of company ethics to publicize the firm's new self-discipline. Only two years later, however, he fell afoul of his own reforms. One provision of the new ethics code stipulated that "employees will not engage in conduct or activity that may raise questions as to the company's honesty, impartiality, or reputation or otherwise cause embarrassment to the company" (5).[1]

As newspapers around the US reported, Stonecipher did embarrass Boeing. He carried on an affair with a divorced female executive. After an anonymous informant within the company disclosed evidence of the relationship, including some steamy emails, to the heads of the company's legal and ethical departments, Boeing's board of directors decided that the 68-year old Stonecipher, long married and with grown children, had to go. Stonecipher had violated the very code of ethics the company had put in place on his arrival in office. As he said later: "We set – hell, I set – a higher standard here. I violated my own standards. I used poor judgment".[2] The collapse of Enron and other 21st-century business scandals have kept violations of ethical codes in headlines.

Ethics and economic activity seem to be uneasy companions. If economic activity centers on the maximization of efficiency in production, consumption, distribution,

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1 http://www.boeing.com/companyoffices/aboutus/ethics/ethics_booklet.pdf. Viewed July 19, 2006.

2 http://www.globalethics.org/newsline/members/issue.tmpl?articleid=03140519022148. Viewed July 18, 2006.

and transfers of assets, what place can it allow for ethical concerns? Institutional economics offers a useful reply: among the institutions that stabilize economies, lower transaction costs, and assure commitments, formally enacted rules of good behavior play a significant part.

This paper pursues that insight by identifying a series of intersections between ethics and economic activity. Despite the frequency with which CEOs speak of ethics and business schools teach courses on the subject, researchers have so far produced no more than scattered findings on how ethical questions actually arise within economic life, how economic actors respond to them, and what effects those responses have on economic performances. The paper therefore concentrates on identifying salient research questions and then closes with concrete suggestions concerning the sort of inquiries that would produce better answers than are now available.

What do we mean by ethical questions? The Oxford English Dictionary defines ethics as "the science of morals: the department of study concerned with the principles of human duty". In economic activity then ethics concerns the proper way of conducting production, consumption, distribution, and transfer of assets. For instance, ethical questions turn out in such varied forms as: is it right to pay women for their eggs? Is it wrong for a supervisor to make sexual advances to an employee? May a CEO legitimately issue public reports exaggerating a firm's economic performance? Is it appropriate for company executives to use company jets for personal trips? More generally, is it feasible to set rules that eliminate conflicts of interest between a person's corporate responsibility and private interests? May a lawyer appropriately use confidential information from a client to make profitable investments? May a psychiatrist who learns about a patient's embezzlement on the job appropriately withhold that information from an employer or the police?

These are everyday questions in economic life. Within business circles people have had a field day with issues of ethics. In his introduction to a 2006/2007 annual collection on business ethics, John E. Richardson declares:

> "Recent events have brought ethics to the forefront as a topic of discussion throughout our nation. And, undoubtedly, the area of society that is getting the closest scrutiny regarding its ethical practices is the business sector. As corporate America struggles to find its ethical identity in a business environment that grows increasingly complex, managers are confronted with some poignant questions that have definite ethical ramifications. Does a company have any obligation to help solve social problems such as poverty, pollution, and urban decay? What ethical responsibilities should a multinational corporation assume in foreign countries? What obligation does a manufacturer have to the consumer with respect to product defects and safety?" (Richardson 2007: iv)

Economic ethics have also preoccupied moral philosophers and feminist thinkers (e.g. Anderson 1993; Buchanan 1985; Gilligan 1982; Held 2005; Larson/Freeman 1997; Tronto 1993). Even some economists and economic sociologists have joined the discussion of morality and economic behavior (e.g. Frank 2003, Hausman/McPherson 1993; McCloskey 2006; Sen 1987; Swedberg 2005). Questions of moral and immoral action arise recurrently in some branches of economic sociology, for example, the study of professions, of crime, of inheritance, of consumption, the economics of care, and the commodification of human goods, such as organs, blood, and eggs. A flourishing literature documents the "dark side of organizations," the prevalence of corruption and the recurrent temptation to subvert organizational ends in pursuit of parochial interests (e.g. Ashforth/Anand 2003; Baker/Faulkner 2004; Palmer/Maher 2006; Vaughan 1999).

Confronted with questions of this sort, both economists and economic sociologists often return to comforting dichotomies between the separate spheres of proper economic activity and proper normative behavior. On one side, a self-contained world of hard-nosed rationality; on the other, another self-contained world of sentiment and obligation. Mix the two, goes the reasoning, and both of them suffer (Zelizer 2005). As a consequence, economic analysts find it easier to ban ethical and normative questions from their own agendas as work for philosophers, theologians, and advocates.

Thomas Piper of Harvard Business School, a pioneer in development of ethics courses for MBAs, reports that he met considerable resistance from both sides. Quantitative economists voiced "real doubts about whether this was just philanthropy and foolishness". Meanwhile ethicists were "troubled when economics was introduced into the conversation" (Rosenberg 2006: 49). Economist Julie Nelson explains:

> "A particular belief about commerce and its relation to ethics is implicit in many contemporary discussions, both academic and popular. This is the belief that money, profits, markets, and corporations are parts of an 'economic machine'. This machine operates in an automatic fashion, following inexorable and amoral 'laws'. While the machine organizes provisioning for our bodies, it is itself soulless and inhuman. Ethical questions, on the other hand, concern the appropriate respect and care for other creatures that we – as living, social, and soulful beings – should demonstrate. Since machines are incapable of morality, thinking about economies as machines puts commerce firmly outside the ethical realm." (Nelson 2006: 1-2)

Economic analysts' banning of ethics oddly parallels the tendency of ethical critics to deal with unethical behavior by strict prohibition.

My own first book, in fact, took up closely related issues. *Morals and Markets* examined the transformation of life insurance from a stigmatized violation of ethical principles into a prudent and morally laudable economic investment in the future. In its early phases, critics of life insurance decried its insertion of crass commercialism and narrow self-interest into a zone of sacred commitments. They questioned: "Has a man the right to make the continuance of his life the basis of a bargain? Is it not turning a very solemn thing into a mere commercial transaction?" (*Our Mutual Friend* 1867 as cited in Zelizer 1979: 45-46) Insurance agents, in this view, were selling an unethical product and thereby undermining public morality. Only by invoking an alternative morality did advocates of life insurance succeed in making it first acceptable, and then even ethically desirable.

The early response to life insurance brings out a recurrent feature of ethical disputes at large. Critics of unethical behavior do not merely seek to stigmatize it or to make it less attractive. They regularly propose to ban specific elements: render them illegal, make them conditions for expulsion from an organization and organize attacks on perpetrators. Any economic sociologist who studies environmental pollution, automobile safety, or other presumed threats to human wellbeing regularly encounters calls for outright bans on this menace or that.

Economics and economic sociology, however, have no coherent body of description and explanation concerning ethical principles and their application. As Paul DiMaggio remarked when I told him my intention to write this paper: "yes, economic ethics is all about eliminating personal influence from organizations, while economic sociology is all about finding personal influence in organizations". Max Weber lost to Schumpeter and Hayek. On the whole, views of the economy as an autonomous, distinctive sphere of human activity organized around rationality and efficiency have impeded the serious consideration of morality's place in economic life.

This preliminary survey does not take up every question of morality that comes up in economic activity. Instead, it closes in on one crucial junction between morality and economic life: the formation and operation of formal ethical codes within different sorts of economic activity. The paper identifies a series of questions about ethical codes that deserve serious theoretical and empirical attention from economic sociologists and illustrates the interest of those questions by referring to a variety of existing empirical analyses. By "formal ethical codes" I mean a codified set of rules for moral behavior applying to a specific population. In codes, according to Charles Tilly, "reasons given for actions cite their conformity to specialized sets of categories, procedures for ordering evidence, and rules of interpretation. Together, categories, procedures, and rules make up codes" (Tilly 2006: 102). They include ethical codes labeled as such but also implementation in the form of grievance procedures and do-don't statements of principle.

One further narrowing of our subject matters. Here we concentrate on codes adopted by economic organizations, including professional organizations such as medical societies. That narrowing ignores powerful codes enacted by legislatures and governmental agencies, not to mention codes promulgated by religious bodies, advocacy groups, and clusters of intellectuals. Such codes, as we will see, sometimes put pressure on economic organizations. To treat them all in detail here, however, would hinder the work of systematizing the place of ethics in economic activity.

Ethical codes in economic organizations, then, apply categories, procedures, and rules to some specific group of actors. For example, corporate codes of ethics typically identify categories of contested behavior and of persons at risk to those behaviors, procedures for identifying and handling violations, and rules for implementing these principles within the corporation. Stonecipher suffered the penalties prescribed by just such a code. Five questions call for attention:

(1) What are the distinctive properties of ethical codes?

(2) How do they arise?

(3) How do they produce their effects?

(4) What produces violations?

(5) How do codes and responses affect economic activity?

These are both empirical and analytical questions. The paper takes up each in turn.

2. Distinctive Properties of Codes

An impressive proportion of economic organizations adopt formal ethical codes. In their survey of 1,000 major US corporations, Gary R. Weaver, Linda Klebe Treviño, and Philip L. Cochran found that 98 percent claimed to address ethical issues in some formal document, 78 percent explicitly cited codes of ethics, 51 percent had telephone lines for reporting ethical concerns, and 30 percent had offices for dealing with ethics and legal compliance. Nearly two-thirds of these offices were created in the 1990s (Weaver/Treviño/Cochran 1999). Indeed, in a 2005 *Business Ethics* article, James C. Hyatt, a freelance business writer notes:

> "A lot of companies are singing the compliance blues these days, as they struggle to cope with the complexities of Sarbanes-Oxley legislation, passed in 2002 in the wake of financial scandals (. . .). Corporations are rushing to learn ethics virtually overnight, and as they do so, a vast new industry of consultants and suppliers has emerged. The ethics industry has been born." (Hyatt 2005)

Hyatt cites the rush to ethics by Goldman Sachs, Citigroup, and The New York Times Co. among many others. In fact, world standards are already emerging for corporate ethical codes. A Harvard Business School research team has created a so-called Global Business Standards Codex synthesizing the ethical principles and rules that recur in the most prestigious and influential codes (Paine et al. 2005). From those codes the team distills eight recurrent principles: fiduciary, property, reliability, transparency, dignity, fairness, citizenship, and responsiveness. Looked at more closely, the codes involved synthesize Tilly's categories, procedures, and rules. Codes are in vogue.

Codes may conform to general moral principles such as "do no harm". But, they often go beyond general principles by specifying (a) categories of persons, activities, and sites of activity to which they apply, (b) procedures for identifying instances of those categories, and (c) rules distinguishing between required and banned activities in those circumstances. They sometimes also specify (d) penalties for banned activities. Ethical codes governing sexual behavior within a corporation, for example, typically state to whom, what, and where they apply (do offsite liaisons matter?), who should report a violation and how (does every employee who learns of an illicit affair have an obligation to report it, and if so to whom?), exactly what counts as a violation (does recurrent flirting without further sexual relations transgress the code?), and what penalties transgressors should receive (does a violation lead to automatic firing?).

In addition to sexual behavior, ethical codes often govern other forms of intimacy. FedEx's extensive "Code of Business Conduct & Ethics" of 2003, for example, illustrates its principles with this Q & A:

> "Question: I believe that I did not receive a promotion because my manager knows that I am attempting to become pregnant. I heard my manager say that when a woman becomes pregnant, it inevitably interferes with job performance. Is there anything I can do?

Answer: Yes. All employment-related decisions at FedEx (e.g. promotion, remuneration, training, etc.) must be based on job-related criteria, skills, and performance. You should use the complaint processes within your operating company or report the situation to our human resources representative or to your company's legal department. A report could also be made using the FedEx Alert Line." (4)[3]

As compared with the rules of thumb and matters of degree that most people adopt when facing everyday moral questions, codes describe sharp boundaries between acceptable and unacceptable behavior. In its 1989 company handbook, the giant retailer Wal-Mart, for example, forbade married employees (whether separated or not) from dating other employees of the firm. When a romantic couple fell under the ban and lost their Wal-Mart jobs, they sued. In a 1995 landmark case a New York court upheld the company's ban.[4] Later, however, Wal-Mart dropped that provision, restricting its prohibition to relationships between supervisors and employees (Sugarman 2003). The pertinent section of its 2005 "Statement of Ethics" reads:

> "You may not date or become romantically involved with another Associate if you can influence that Associate's terms and conditions of employment or if that Associate can influence the terms and conditions of your employment." (16)[5]

Such regulations do not necessarily work well outside the US. In 2005, for example, workers' representatives from Wal-Mart's 91 German stores successfully blocked in court the installation of a ban on inter-office dating.[6]

In 1998, *Business Week* reported a remarkable variant on codes governing office romance: the so-called "cupid contract". "A few months back," reported the magazine:

> "Garry G. Mathiason, senior partner with Littler, Mendelson, Fastiff, Tichy & Mathiason, the nation's largest employment law firm, got a call from a very sheepish general counsel for a major company. The president of the company, the counsel said, 'is planning to have a consensual affair with one of his employees,' but before he does, 'he wants to draft a written agreement' stating that the affair is voluntary – to reduce the chance that the woman might file a sexual-harassment suit if they broke up. 'You won't believe it', Mathiason assured the nervous counsel. 'But we've already drafted a standard form' for just such cases." (Symonds et al. 1998)

Legal scholar Vicki Schultz (2003) identifies such regulations as attempts to create a "sanitized workplace". According to Schultz, codes and compacts of this sort not only stifle creative collaboration within economic organizations, but even more danger-

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3 http://fdx.client.shareholder.com/downloads/code.pdf. Viewed July 18, 2006.

4 State v. Wal Mart Stores, Inc. 621 N.Y.S. 2d. 158 (N.Y.A.D. 3 Dept. Jan 05, 1995).

5 http://media.corporate-ir.net/media_files/IROL/11/112761/corpgov/Ethics%20_Current.pdf. Viewed July 18, 2006.

6 http://www.germany.info/relaunch/info/publications/week/2005/050617/economy1.html. Viewed July 18, 2006. That court action was only one sign of Wal-Mart's incompatibility with German corporate culture. In 2006, the big firm pulled out of Germany.

ously, they also distract the same organizations from more profound sources of gender inequality. Whether or not they produce such deleterious effects, codes regularly mark sharp boundaries which employees' behavior must not transgress.

Ethical codes, furthermore, often attach penalties for infractions that bear little relationship to the economic organization's loss from the infraction. The Johnson & Johnson corporation pioneered ethical codes as early as the 1940s. Researcher Michael Lindsay reports an interview with former Johnson & Johnson CEO Ralph Larsen, who made a striking comparison. As a young executive in the early 1960s, Larsen had made an egregious ordering error that cost the company $25,000, a very large sum for the time. The executive recalls his fear that his mistake would cost him his job.

Instead, Larsen recalls: "My boss called me in, and he said, you learn anything? He asked me what happened. And I say, yeah. He said, get out of here. That was the end of it". About the same time, another Johnson & Johnson employee who walked out of the plant with two bottles of baby shampoo lost his job immediately: "Never saw him again. He was fired immediately. These were things, you know coming off the line in the thousands" (Lindsay 2006). The ethical boundary was sharp and the penalty immediate.

3. How Do Ethical Codes Arise?

Three rather different circumstances promote the formation of ethical codes: external pressure, emulation, and internal crisis. First, external authorities sometimes insist on enacting internal codes as they enforce conformity to tax codes, professional standards, or licensing of specialized services. Second, prestigious organizations provide models of internal regulation that other organizations adopt readily as ways of demonstrating their own effectiveness and/or membership in an elite circle. Third, internal crises often generate new rules, and sometimes whole codes – especially if the crisis produces a moral debate within the organization or a scandal that tarnishes the organization's public reputation (March et al. 2000). Family businesses appear to be somewhat less vulnerable to such pressures; at least they less frequently install formal codes of ethics (Adams et al. 1996).

Crises have been generating codes for a long time. Paul Starr points out that the relatively weak 19th century American Medical Association adopted its code of ethics in response to a deep crisis: loss of protection against standard medicine's rivals when a competition-loving New York State repealed its licensing statutes in 1844. In this crisis, according to Starr:

> "The orthodox profession could no longer look to the state for protection against what it viewed as the degradation of its standards. This was the impetus for the AMA's adoption of a code of professional ethics, with its concern for excluding sectarian and untrained practitioners." (Starr 1982: 91)

Among other things, the new code barred patient stealing, free advice to affluent friends, and public airing of disagreements concerning the proper treatment of a given patient (Starr 1982: 94; Rothman 2002: 110). In short, the crisis caused orthodox physicians to close ranks in defense of a threatened monopoly.

Ethical codes have a long history in American business and professions (Abbott 1983). As early as the 1920s, Edgar L. Heermance published a compilation of codes of ethics and the American Academy of Political and Social Science produced a special issue on the subject (Heermance 1924; "The Ethics" 1922). When external pressures or internal crises built up, firms regularly defended themselves by enacting codes.

After the Watergate and the securities and exchange commission scandals of the 1970s, for example, many American corporations installed top-down ethical codes in which chief executives instructed their underlings on behavior that would avoid corporate disgrace. In an analysis of 119 conduct codes promulgated during the period, Donald Cressey and Charles Moore identified two spurs to production of new codes: defensive responses to the scandals themselves, and direct SEC pressure to eliminate false books as a device for concealing corporate misconduct (Cressey/Moore 1983: 56-7).

Top executives were not alone, however, in promoting ethical codes. In a comprehensive analysis of sexual harassment grievance procedures and anti-harassment training from 1977 to 1997, Frank Dobbin and Erin Kelly (2007) show that personnel managers pushed the adoption of such practices over considerable resistance from company lawyers and substantial doubt that the practices reduced legal liability. The personnel experts – now relabeled Human Resources Management specialists – defended their turf against lawyers who had been taking over concerns with civil rights, employment discrimination, and related matters. In short, external pressures combine with internal struggles to generate more extensive and explicit ethical codes.

4. How Do Ethical Codes Produce Their Effects?

We must distinguish between two kinds of effects: display effects and enforcement effects. Enactment of a code almost always involves an element of display, advertising to people inside and outside the organization's vigilance, uprightness, and/or membership in an organizational elite. Many a code adopted for display suitably impresses the naïve, but leaves knowledgeable insiders smirking.

Enforcement effects concern direct influence over behavior within the organization. Leaving aside perverse effects such as sabotage and simple dissimulation, genuine enforcement effects for ethical codes operate through four clusters of causes:

(1) Most obviously but not necessarily most effectively, rewards for good behavior and penalties for bad behavior, if actually delivered, deter banned activities through threat, promise, or simple elimination of bad actors from the organization. Thus the dramatic firing of a cashier who dips his fingers into the till sends a signal to everyone else who handles the organization's money.

(2) As analysts of principal-agent relations regularly point out, selection eliminates candidates for ethically sensitive positions who lack credentials, previous records of reliability, or attributes employers associate with propensities for ethical uprightness. Potential cashiers generally undergo much more extensive screening for likely moral responsibility, say, than computer programmers do.

(3) Socialization also makes a difference. Assimilation into an organization where everyone evinces horror – or fright – at the very idea of falsifying accounts re-

inforces the reluctance of new members to cheat in that way, almost regardless of the likelihood of detection and punishment for falsifying accounts. As little effect as pious exhortations from CEOs are likely to have, daily teaching from fellow workers increases the effectiveness of ethical codes.

(4) More subtly, ethical behavior becomes part of the mutual expectations of organization members who are engaged in relations of reciprocity: my not breaking the rules increases the chances that in the future I will refrain from undercutting you as well as decreasing the likelihood that I will pull you down through guilt by association. Thus multiple developers of the same software come to owe each other protection of the software's secrets from outside competitors.

To be sure, each of the four enforcement effects remains vulnerable to collusion by code violators within the organization: joint concealment of violations from sanctioning agents, recruitment of confederates, socialization into code-violating subcultures, and mutual protection among violators. Yet when organizations' ethical codes do work, they do so through some combination of sanctions, selection, socialization, and mutual investment in interpersonal relations.

Visible sanctions get plenty of attention from corporate managers. In his 2005 bestseller *Winning*, famous manager Jack Welch speaks about "a culture of integrity":

> "In such cultures, there can be no head fakes or winks. People who break the rules do not leave the company for 'personal reasons' or to 'spend more time with their families.' They are hanged—publicly—and the reasons are made painfully clear to everyone.
>
> Perhaps the lawyers will warn you against saying too much. But if you've got the facts right, you should be comfortable laying out who broke the rules and how. There are enormous organizational benefits from making examples of people who have violated your policies." (Welch 2005: 151)

Similarly, online giant Google has issued an elaborate code of conduct that includes many a thou shalt and thou shalt not, but warns unambiguously that violations will receive punishment. In the code's 2004 version, fair employment practices, ban on harassment and discrimination, warnings against drugs, alcohol use, weapons use, and violence, exclusion of cats from company premises, controls over conflicts of interest, preservation of confidential information, maintaining accurate records, protecting company property, and obeying the law all find their way into the Google code. At the end, nevertheless, comes the sting:

> "If you know of a situation or incident that you feel may violate this Code, please report it to your manager or to Human Resources. Your report will be reviewed and any Googler found to have violated any of the terms of this code will be subject to disciplinary action that may include termination of employment. We'll also take any appropriate steps to prevent any further violations." (11)[7]

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[7] http://investor.google.com/conduct.html. Viewed July 18, 2006.

In code after code, the bottom line ends with dismissal. But curtailment of privileges, demotion, or even turnover for outside prosecution may also occur to wayward employees.

What happens, however, when malfeasance occurs at an organization's top? At times, whistle blowers or conscientious professionals illustrate the combined effects of socialization and mutual investment. Robert Jackall identifies a fascinating variation on this theme: a British-trained chartered public accountant in a large American firm who discovered that the company's top officers were bribing officials of foreign countries and fudging internal accounts including pension funds to their own financial advantage. After he had complained, Brady, the accountant, returned from a hospital stay to discover that the company had demoted and transferred him. Brady reported the problem to an influential friend within the corporation, who took the affair to the chair of the corporate board's audit committee. The company immediately fired the friend and escorted him from the building with armed guards (Jackall 1988: 108). Clearly enforcement effects only work within limits set by the current structure of corporate power (see Morrill et al. 1997).

5. What Produces Violations of Ethical Codes?

Even well articulated ethical codes suffer violations. Failure of the main code-enforcing causes – sanctions, selection, socialization, and mutual investment in interpersonal relations – makes violations possible, but does not cause them directly.

What does? Broadly speaking, we can distinguish among (a) individual advantage, (b) interpersonal loyalty, and (c) unauthorized collective enterprises. In the presence of an ethical code, almost every organizational member has incentives to cheat at least now and then, if only to save effort. Those incentives become substantial when the member's organizational position puts resources or information at the member's disposition that, if used in violation of the code, would bring significant rewards outside the organization. But even in the absence of material rewards, abuse of job-related perquisites sometimes becomes the means of acquiring prestige, wielding influence, or receiving sexual favors.

Interpersonal loyalty figures in violations of ethical codes when the code requires reporting of unethical behavior, but mutual commitments within pairs or small clusters of co-workers inhibit that very reporting, because the likely damage to the violator would break bonds of loyalty. Whistle-blowers regularly face charges of disloyalty and self-aggrandizement.

Within economic organizations, workers often create unauthorized collective enterprises: organized factions and patron-client chains, systems of collaboration and job-trading, betting pools, gossip circuits, and more. Many of them do the organization no harm, and some even serve the organization by enhancing commitment or solving production problems (Granovetter 2007). To the extent that such enterprises develop their own internal solidarities and raisons d'être, nevertheless, chances increase that they will have three kinds of effects on organizational life: generating violations of ethical codes in pursuit of the collective enterprise, enabling participants to screen their collective activities from organizational monitoring, and inhibiting individual participants from reporting infractions to higher authorities. Powerful organizational subcultures form in the shadows.

Michel Anteby uses his detailed observations of a French aerospace factory to illustrate the general practice he calls *poaching*: "the use of company machines or material on company time to create artifacts for employees' personal use" (Anteby 2003: 218). In the plant Anteby studied, workers regularly made parts for their own vehicles, barbecues, and domestic appliances. Strictly forbidden by the plant codes, these widespread practices depended on extensive collaborative enterprises. Bosses who learned about them, furthermore, often had little choice but to tolerate their subordinates' departure from the rules. In fact, as Anteby documents in detail, such unauthorized collective enterprises recur in a wide range of manufacturing. Those workers who actually receive punishment for this sort of violation typically have operated outside the conspiracy, or have somehow fallen out with its participants.

Managers themselves sometimes collude in their subordinates' evasion of well-defined ethical codes. Prohibitions on the exchange of gifts with outside contractors and officials typically raise dilemmas for sales personnel, so much so that corporate codes often exclude occasional exchanges of meals, entertainment, and symbolic objects from ban on gifts. Toys "R" Us' 2003 ethics code, for example, declares:

> "The Company generally prohibits the acceptance from suppliers or customers of the Company of any gifts or gratuities, whether in the form of money, merchandise, services, meals, entertainment, travel or any other form. If permitted by applicable law, a gift may be accepted by an associate from a supplier or a customer if the gift is (i) a perishable item (for example, food) that has little or no resale value, (ii) any other non-cash gift valued at less than $50 provided the gifts are not received on a regular or frequent basis, (iii) a meal or entertainment that is permitted by this paragraph, or (iv) approved by an Ombudsperson on the basis that acceptance of the particular gift serves a legitimate, business-related purpose." (5)[8]

Calvin Morrill tells the tale of a major toy company dealing with suppliers in Southeast Asia. During a business trip, two prominent company officials accepted the supplier's gifts – Rolex watches for themselves, jade jewelry for their wives – on the belief that the gifts reinforced their company's ties to the supplier. The senior vice president to whom they reported objected vigorously to this violation of the company code, ordering the officials to return the gifts.

Nevertheless, the vice president recognized the dilemma. He and the officials made the following arrangement: the vice president himself would travel to Asia for clarifying talks with the suppliers and until then the two men would accept no further gifts. Nor did anyone report the violation to the company's ethics committee (Morrill 1995: 199). Thus, every code allows for nuances, exceptions, and minor subversions.

8 http://media.corporate-ir.net/media_files/irol/12/120622/Corp%20Gov/Code_of_Ethics_031504.pdf. Viewed July 19, 2006.

6. How Do Codes and Responses to Them Affect Economic Activity?

Even more so than in the case of the earlier questions, any prudent answer to this question runs like this: let us do a lot more systematic research, and then decide. So far, we have no systematic body of research and theory that allows us to pinpoint effects of organizations' ethical codes and organization members' responses to them. The closest we come is the recently superabundant discussion of corporate social responsibility (see e.g. Bartley 2005). But even there a comprehensive survey published in 2003 concludes that the widespread consensus on the positive effects of responsibility initiatives may result from an illusion (Margolis/Walsh 2003). Back to the drawing board! Throwing prudence to the winds, however, we can at least draw out the implications of my earlier arguments. If ethical codes, for example, substitute sharp yes-no boundaries for continua from unacceptable to meritorious behavior, we should expect two complementary effects to occur: concentration of organizational efforts at monitoring, control, and conformity itself precisely along that boundary, and displacement of dubious behavior into gray areas left gray by that concentration on the boundary. Thus we should find money-handlers punctilious about the transactions singled out by the code, but ready to compromise or obfuscate when it comes to other transactions.

The sources of ethical codes should also make a difference. External pressure should, in principle, produce quasi-conspiracies in which an organization's members (or at least its chief monitors) create collective performances that will satisfy external agencies without necessarily rectifying abuses in the areas under scrutiny. Emulation of prestigious organizations should produce an even greater fixation on labels and procedures, and even less internal monitoring of the code's effects. Internal crisis, in contrast, most likely produces more extensive efforts to construct explanations of what went wrong, greater elaborations of prohibitions and penalties based on those explanations (however valid), broader internal monitoring, and serious impacts on employee behavior.

As for how codes produce their effects, the distinction between display effects and enforcement effects again clarifies the question. To the extent that displays respond to pressure from powerful external agencies, we can expect them to shift the organization's visible performances in the directions demanded by those agencies. To the extent that the displays serve the purposes of advertising, executive self-esteem, or organizational self-image, however, we should expect relatively superficial effects on actual organizational performance as represented either by interactions among internal segments or by aggregate output in the form of efficiency, productivity, profitability, or quality of goods and services produced.

When it comes to enforcement effects, we enter a likely zone of fascinating but controversial results. Do clearly announced rewards and punishments for coded behavior, selection, deliberate socialization, or the integration of codes into interpersonal relations affect overall performance differently? For future investigation, I suggest the following hypotheses:

(1) The four sorts of enforcement effects fall into an ascending order of cost to managers, with selection generally easier to perform, new rewards and penalties

relatively cheap to put into place (at least initially), interpersonal relations costly to penetrate, and socialization in between.

(2) The extent of organizational transformation that results from the four enforcement effects falls in precisely the opposite order, with penetration of interpersonal relations far more transformative than socialization, selection, and, especially, generally applied rewards and punishments.

(3) Nevertheless, as before, the institution of ethical codes generally concentrates attention along the boundaries identified explicitly in the codes, and shifts dubious behavior toward unspecified gray areas.

(4) Codes always become instruments of internal power struggles, and therefore vary greatly in their overall effects depending on internal structures of, and struggles over, power.

These risky hypotheses follow more or less directly from my earlier arguments. That is, of course, no guarantee that they are correct. They call out for systematic research.

I also proposed earlier that violations of codes spring from three sources: individual advantage, interpersonal loyalty, and unauthorized collective enterprises. If so, we should discover distinctly different effects of ethical codes depending on which of the three prevails. We could reasonably expect codes entailing specific rewards and punishments for specific forms of behavior to shift individual advantage visibly and rapidly. Interpersonal loyalty is likely to resist the application of codes more tenaciously, but to be vulnerable to public disclosure.

Unauthorized collective enterprises offer the most interesting challenge both to codes and to analysts. Surely we would first have to know how much workers have invested in the enterprise: a betting pool disappears more easily than an internal system of job collaboration. But in general we should suppose that unauthorized collective enterprises lend their participants the capacity to preserve the enterprise while altering visible signs and behaviors enough to simulate conformity with publicly announced ethical codes.

7. Economic Sociology and Ethics: Future Agenda

For the purposes of this paper, I have narrowed the scope of ethics radically. Codes are crucial but they do not exhaust the topic. Three agendas follow: first, we need to examine the relationship between general ethical contexts and the specific forms of code that organizations adopt. We might reasonably expect, for example, that national ethical traditions shape contrasting approaches to both the construction and the contents of formal ethical codes (see e.g. Langlois/Schlegelmilch 1990).

Second, we can appropriately ask how differently more general ethical principles such as ‘do no harm’, ‘render good for good’, and ‘act fairly’ operate as compared with the boundary defining codes we have reviewed here. It could well be, for example, that general principles of this kind have stronger effects on organizational behavior than explicit codes to the extent that the principles involved belong to the cultural context and cover a wider range of behavior than economic activity within organizations.

Beyond these two relatively manageable agendas for economic sociology, looms a much larger set of questions that many economic sociologists might prefer to avoid. Critics of capitalism often complain that the system itself incorporates unethical principles, such as exploitation, profit-maximization, and neglect of the vulnerable. Advocates of what the French call "économie solidaire" and "commerce équitable" for example, do not merely propose building greater solidarity into existing economic relations but claim that such arrangements as microcredits, cooperatives, and alternative currencies ("monnaies sociales") implement superior ethical principles (see e.g. Blanc 2006; Le Velly 2006; Mertz 2005; Servet/Guérin 2002).

Similarly, advocates of corporate responsibility, social democracy, welfare capitalism, and radical environmentalism claim superiority for their own ethical principles. Whether or not economic sociologists subscribe to such programs, they ought to consider whether capitalism and its alternatives spring from competing ethical principles, and if so, how.

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