The Influence of Isomorphic Pressure on the Language and Content of Codes of Conduct

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Abstract

The influence of isomorphic pressure on the language and content of codes of conduct was assessed for 107 globally distributed firms within the financial services industry. Results indicated that isomorphic pressures had a modest influence on code content and a very limited influence on code text and language. Specifically, in contrast to previous findings, there was very little evidence of boilerplate language across firms. Results were discussed in term of institutional immunity stemming from multiple institutional logics.

Introduction

Codes of conduct have become embedded in corporate and societal cultures. As such, they serve many functions including: (a) acting as enabling documents that provide guidance to organization members when faced with ethical problems, (b) serving as a source of public evaluation to assess a firm's values and responsibilities, (c) socializing new employees, (d) enhancing the firm's reputation and gaining public trust, (e) preserving existing practices, (f) deterring unethical behavior by employees and business partners, (g) serving as a support system for employees, and (h) serving as an adjudication mechanism when unethical behavior is reported (Chua & Rahman, 2011).

Studies on the topic reflect the broad implications of corporate codes of conduct for organizations and society. Even a cursory scan of the literature on this topic indicates interest in key areas that include code content and ethical behavior (Erwin, 2010), the deterrence value of ethical codes (McKinney, Emerson & Neubert, 2010), and principles for developing effective codes of conduct (Schwartz, 2002).

Recent interest has been expressed in contextual influences on corporate codes of conduct. Specifically, codes have been viewed as narratives that are socially constructed (Statler & Oliver, 2011). Thus, in addition to studying the content and functions of codes to increase their efficacy, researchers have become interested in the organizational, institutional and societal factors that influence code language and its interpretation (cf., Bethoux, Didry & Mias, 2007; Chua & Rahman, 2011). In so doing, interest in the sensemaking processes of senior managers

responsible for responding to societal and regulatory pressures cf., Statler & Oliver, 2011; Wright & Rwabizambuga, 2006) and in how employees navigate these codes once they are disseminated has also been expressed (cf., Winkler, 2011).

This broader conceptual frame has led to increased interest in the corpus of codes of conduct. Researchers have paid more attention to the language and meaning of codes to gain insights into the degree of consistency across firms and the specific dimensions of employee and firm behavior included in codes. Codes of conduct are, thus, being studied as socially constructed entities that are affected by internal and external contextual factors.

This study examines the influence of isomorphic pressures on code language and content within the financial services industry. It extends prior research in several ways. To begin with, because this industry relies on global networks of people and information (Wright & Rwabizambuga, 2006), the organizational field in this study is global spanning all of the world's regions. In addition, isomorphic pressures on code language and content were studied not only by assessing the degree of common text across firms, but also by analyzing code content and domain areas.

Background

Institutional Theory

Institutional theory is concerned with how cultural and social norms influence the actions and evolution of organizations and how organizations shape the behavior of their members (DiMaggio & Powell, 1983). The concept of legitimacy sits at the core of institutional theory and it posited to act as a strategic element that is necessary for access to required resources (e.g., financial and intellectual capital) and, ultimately for an organization's survival (Kostova, Roth & Dacin, 2008).

Organizations operate in organizational fields that include diverse stakeholders (e.g., customers, suppliers and regulators) that shape their behavior. DiMaggio & Powell (1983) use the concept of isomorphism to posit that organizations within an organizational field become increasingly similar over time. Isomorphism results when individual firms within an organizational field are faced with common external pressures for legitimacy from powerful stakeholders.

DiMaggio & Powell (1983) have identified three sources of pressure that generate isomorphic behavior. Coercive pressures stem from external sources tied to regulation or cultural expectations. Organizations frequently act to mitigate these pressures leading to increased homogeneity among them (Abolifia, 2010). Mimetic pressures result when firms model them themselves on counterparts that are perceived to be more adept at gaining legitimacy. In this case, isomorphism can camouflage differences among firms in terms of their missions and values presenting a seemingly monolithic grouping of organizations, although underlying differences may remain (Chua & Raman, 2011). Normative pressures result from occupational socialization and the professionalization of the workforce (DiMaggio & Powell, 1983). In the process, rules are developed that constrain destructive behavior while promoting occupational autonomy leading to external pressures for the homogenization of rules, norms and practices across organizations.

Application to Codes of Conduct

Basic tenets of institutional theory have direct application to empirical research concerned with the language and content of corporate codes of ethics. The move toward studying the narrative elements of codes fits well with an institutional perspective because pressures for legitimacy and conformity are reflected in the language of corporate codes. It has been argued that codes should be consistent within organizational fields based on coercive, mimetic and normative pressures (Chua & Raman, 2011; Holder-Webb & Cohen, 2012); that is, in seeking legitimacy, consistency in code language in in the interests of all firms within an organizational field.
Although work in this area is relatively recent there is some evidence that isomorphic pressures lead to consistency of content and text within industry groups. Specifically, Holder-Webb & Cohen (2012) found that the content and corpus of corporate codes converged across organizations in four organizational fields. However, Wright & Rwabizambuga (2006) found that some firms within the financial services industry resisted pressures for conformity and seemed to act based on their unique characteristics and cultures.

This divergence in empirical findings is consistent with recent work on institutional theory. Although isomorphism is central to institutional theory, it has been suggested that under certain circumstances, institutional immunity, contradictions and nonconformity can result (Lepoutre & Valente, 2012). Institutional immunity refers to low sensitivity to external influences leading to lower levels of isomorphism for some firms within an organizational field. This lower sensitivity is thought to result from institutional contradictions which occur when there are multiple institutional logics that lead to rethinking the firm's dominant logic (cf., Greenwood & Suddaby, 2006). Institutional nonconformity also occurs when the management's sensemaking leads to the view that the firm is already responding to external pressures so that no further action is needed (Lepoutre & Valente, 2012).

The "cut and paste" isomorphism derived from institutional theory, thus, might be one possibility with regard to how corporate codes of conduct evolve. It is also possible that societal and/or organizational cultures are contravening forces which can influence either an entire organizational field or specific firms within it.

The Study

The Organizational Field: Financial Services

In order to study the degree of convergence among codes of conduct, it is necessary to define an organizational field and the conditions behind pressures for isomorphic behavior. DiMaggio and Powell (1983) define an organizational field in terms of the components necessary for institutional transactions based on connectedness and structural equivalence. An organizational field takes on institutional properties when there are increased interactions among the firms that comprise the field that take the form of formal and informal networks, awareness among firms that they have common interests and are engaged in common pursuits, well defined and established patterns of interactions among firms in the field that define their relative influence and positions, and increasing and often asymmetric information loads and flows.

The financial services industry clearly meets these conditions. The industry has consolidated through mergers and acquisitions. Further, there is a very high level of connectedness among financial services firms that is grounded in dense and proprietary information networks and a high level of structural equivalence based on the regulatory environment affecting this industry (Abolafia, 2010).

High levels of uncertainty characterized the external environment following the financial crisis of 2008 as firms faced increased regulatory pressures, the need to regain public trust, and the problem of avoiding liability. Regulatory pressures were exacerbated because even the most powerful firms sought and received government funds to increase their capital ratios and, in some cases, to avoid ceasing operations (cf., Posner, 2009; Stiglitz, 2010). Bailouts were met with calls for new legislation and new regulations in the United States and Europe that restricted certain business practices and increased pubic oversight.

Although there are strong isomorphic pressures for conformity across codes, there are also contravening forces. To begin with, when there are multiple institutional logics resulting from multidisciplinary practices, institutional pressures are weaker (Greenwood & Suddaby, 2006). Since large financial services firms typically engage in a broad array of services spanning several disciplines (e.g., consumer, institutional and investment banking), it is possible that there is some immunity to prevailing isomorphic pressures (cf., Lepoutre & Valente, 2012). Further, Wright & Rwabizambuga (2006) have suggested that sensemaking in financial services firms is driven by more their unique cultures and the preferences of the top management team than it is by institutional pressures. Lepoutre & Valenete (2012) raise this possibility as well arguing that there are situations where top management might disagree with the prevailing institutional logic and act accordingly.

Hypotheses

Although they have abated somewhat, regulatory pressures in the financial services industry remain strong. Under these conditions, research indicates that firms adopt an isomorphic strategy to limit direct scrutiny of their practices by adopting codes that have vague language and that eschew direct assessment of specific organizational practices and policies (cf., Edelman, Uggen & Erlanger, 1999). Thus, consistency in the corpus of codes across firms in an organizational field is an effective response to coercive pressures. Holder-Webb & Cohen (2012) refer to this tactic as a "cut and paste" method to limit regulation.
Widespread adoption of ethical codes characterized by diffuse language and lack of specificity, in turn, make the case for self-regulation such that the language of the codes becomes self-legitimizing as "accepted" practice (Abolafia, 2010). Thus, under conditions of regulatory uncertainty, mimetic pressures are also increased leading to pressure for consistency across firms (Holder-Webb & Cohen, 2012).

Finally, the highly educated workforce characteristic of the financial services industry and the loss of stature following the financial crisis of 2008 should generate normative pressure for firms to define and uphold professional norms and ethics (Graafland & van de Ven, 2011). As such, agreed upon standards of professional practice are likely to generate text related to professional practice that is common across firms' codes of conduct.

H1: *There is a high degree of convergence among the corpus (i.e., text) of codes of conduct among firms in the organizational field associated with the financial services industry.*

Unless there is a very high degree of overlap, the presence of common text across codes of conduct indicative of isomorphic pressure does not necessarily mean that the codes with common text are identical. The language that is not common can have elements have that have a strong influence on how common text is interpreted.

In addition to consistency of language, isomorphic pressures should also lead to consistency of code content. Holder-Webb and Cohen (2012) argue that firms have an incentive to develop uniform formats for codes of conduct because they legitimize managerial responses to legal requirements (that is, they provide management's view of how compliance should be accomplished and uniformity makes the case for generally accepted practices). Further, consistency of code content serves to limit liability because the case can be made that management acted responsibility and with proper care in accordance with established standards (Abolafia, 2010).

H2: *There is convergence in code domain areas derived from isomorphic pressure within the organizational field associated with the financial services industry.*

Method

Sample

The sample was comprised of 107 financial services firms located throughout the world. It included commercial and investment banks and investment management firms. These organizations were located in North and South America, Europe, Asia, the Middle East, Africa, and Australia.

The firms were identified by listings of leading financial intermediaries by region taken from industry publications and other publicly available information. Codes of conduct were downloaded from each organization's website. Codes were stripped of figures, photos, and associated captions prior to analysis as were introductory letters from CEO's.

Data Analysis

Lexical analysis. The corpus of the codes of conduct were content analyzed with computer software and their content domain areas were coded by the researchers. Assessment of similarity with respect to common text was conducted using WCopyFind , a software program that estimates the degree of similarity between pairs of documents. The program uses two parameters to accomplish this objective: percent overlap among a matched paired of documents (from 0 to 100 percent) and number of consecutive matched words. Documents that are very similar would have high levels of overlap characterized by long strings of consecutive common words.

Coding of content domain. Code content domain was coded by the researchers. Content domain refers to the specific behaviors, acts, and activities included in codes of conduct. Domain can vary with respect to comprehensiveness such that the scope of activities covered can be broad or narrow. The domain of each code was codified by tabulating the inclusion of each activity for each firm in the sample. When an activity was present it was coded as a "1" and when it was not it was coded as "0." Comprehensiveness was measured by summing the number of activities for each firm in the sample.

Results

Lexical Analysis

Following Holder-Webb & Cohen (2012), overlap with respect to word usage was analyzed to determine the degree to which there was commonality of text (that is, the use of identical phrases and words) across the 107 codes of conduct. This was accomplished by assessing the occurrence of common words and phrases across all possible pairings of the 107 documents based on word strings of predetermined lengths.

Very loose parameters for assessing overlap were initially set and then were tightened progressively. Specifically, using 1 percent overlap with respect to the total number of words with the constraint of a minimum of 10 consecutive common words resulted 3993 matches; that is, there were 3993 pairs of documents that met these criteria. Two percent overlap with 20 consecutive common words resulted in 2440 matched pairs. Raising the requirements to 40 percent overlap with 100 consecutive words resulted in 167 matches while 50 percent overlap with 200 consecutive common words generated 72 matches.

Overall, these results are indicative of low levels of common text among the codes. Put simply, there is little evidence that firms in the organizational field were copying the codes of other firms. As such, Hypothesis 1 was not supported.

Analysis of Code Content Domain

The results of human coding of code domain are presented in Table 1. The domain of the codes was similar in structure (e.g., nature and number of categories included) to analyses conducted by Bethoux et al. (2007) and Holder-Webb & Cohen (2012). As indicated in the table, there was some degree of domain convergence. Specifically, four areas were represented consistently in the codes: avoiding conflicts of interest (81% of the sample), maintaining confidentiality of client information (79% of the sample), compliance with laws and policies (68% of the sample), and fair dealing with customers (64% of the sample).

As such, there is evidence that isomorphic pressure did result in convergence of code content domain, especially with respect to compliance, conflict of interest, and client confidentiality. Hypothesis 2, therefore, was supported.

Discussion

Theory and research on the topic of codes of ethics have broadened so that the context in which codes are developed and the factors that affect their communication and interpretation have received more attention. In the process, codes have been viewed as narratives that reflect organizational and institutional cultures (Statler & Oliver, 2011) rather than as guidebooks for employees. Corporate codes are also seen as framing an image for the corporation as it takes on broader issues related to corporate social responsibility such as sustainability and worker rights (Stohl, Stohl & Popova, 2009).

A critical issue in focusing on contextual influences on codes of ethics is to define context. Institutional theory has been used to frame the external context by using the notion of an organizational field to assess and understand isomorphic pressures on code language and content. Theoretical development and subsequent empirical testing suggests that isomorphic pressures should lead to convergence in both code content and language (Chua & Raman, 2011; Holder-Webb & Cohen, 2012). However, it has also been proposed that there can be resistance institutional pressures under certain conditions (Lepoutre & Valente, 2011) so that code content and language might be driven by a combination of institutional pressures, organizational culture, and top management sensemaking (Wright & Rwabizambuga, 2006).

Our findings suggest that isomorphic pressure was attenuated in the financial services industry. Isomorphic pressure affected code content domain, but it had much less influence on the text used in the codes and the language in which codes were communicated.

Code Language, Content, and Isomorphic Pressure

The conceptual argument for convergence of code content and language among firms within an organizational field is well developed, but empirical testing has lagged theory development. There is some evidence of a high degree of convergence regarding code text and content domain in four organizational fields (Holder-Webb & Cohen, 2012), but confirmatory evidence is clearly needed before definitive conclusions can be reached.

This study did not provide such evidence. Contrary to Holder-Webb & Cohen's (2012) findings, we found hardly any evidence of direct overlap in the text of corporate codes of ethics. Put simply, most of the language that comprised these codes was unique to the specific firms in the sample. As such, there was little evidence of a "cut and paste" approach to managing regulatory risk by using boilerplate language. The raw text of these codes, in fact, was consistent with the United States Securities and Exchange Commission's view that code language should be firm specific (cf., Canary & Jennings, 2006).

There was a higher degree of convergence among code content domain areas. In terms of institutional theory, these areas (avoiding conflicts of interest, maintaining confidentiality of client information, fair dealing with customers, and compliance with laws and policies) are indicative of coercive and normative isomorphic pressure. Specifically, the former is focused on meeting the expectations of regulatory agencies and the latter associated with maintaining good professional practice.

Directions for Future Research

Codes of conduct are being viewed from a variety of new and interesting perspectives. For example, it has been suggested that codes have been broadened in scope and meaning in that they communicate an organization's stated responsibilities to its stakeholders and to society (Stohl et al., 2009). Consequently, the meaning of codes is likely to become more important in future research on this topic.

With regard to text matching, our results provide limited support for the "cut and paste" hypothesis suggesting that organizational fields are not monolithic and institutional pressures might operate differently based on the properties of the field. The multidisciplinary practices in financial services might have created multiple institutional logics thereby weakening isomorphic pressures (cf., Lepoutre & Valente, 2012). Further, the intensely competitive nature of this industry might have resulted in senior managers who think independently do not follow prevailing institutional logic (Greenwood & Subbaby, 2006). Future work in this area would benefit by studying organizational fields with varying degrees of institutional immunity to explore the relative influence of isomorphic pressure on codes of conduct.

Finally, the globalization of business coupled with consolidation in many industries is likely to generate organizational fields that span national and regional boundaries. Wright & Rwabizambuga (2006) found that societal culture limited institutional pressures for adopting CSR principles among large money center banks. Our findings suggest that societal culture had a comparatively weak influence on codes of conduct, but definitive conclusions require additional studies. As such, the influence of societal culture on codes within an organizational field remains an interesting area for future research.

Conclusion

An institutional perspective on codes of conduct suggests that, like other aspects of a business, they are something to be managed. Research on the language and domain of these codes, in turn, provides insights into how corporations perceive and manage their responsibilities to the key stakeholder groups. This emerging perspective on codes of conduct offers many new directions for future studies.

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Table 1

Code Content Domain Areas

Domain Area	Percent of Codes Including Domain Area
Conflict of Interest	81
Confidentiality of Client Information	79
Compliance with Laws and Policies	68
Fair Dealing with Customers	64
Protecting Company Assets	53
Responsibility for Reporting Unethical Activity	49
Receiving Gifts	46
Diversity and Equal Opportunity	44
Protecting the Environment	41
Insider Trading	41
Political Contributions and Public Office	35
Relations with Media	26
Responsibility with Personal Finances	26
Civility in the Workplace	26
Money Laundering	24
Bribery	24
Healthy and Safe Workplace	22
Avoidance of Alcohol and Drugs	14
Avoidance of Unnecessary Risk	10
Professional Conduct	8
Compliance with Tax Laws	6
Romantic Relationships at Work	4
Dealing with Foreign Governments	4
Proper and Appropriate Dress	2