

SYMBOLIC OR SUBSTANTIVE DOCUMENT? THE INFLUENCE OF ETHICS CODES ON FINANCIAL EXECUTIVES' DECISIONS

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With the recent spate of scandals resulting from the questionable behavior of corporate leaders, there have been calls for various governance mechanisms including ethics codes to guide executive decision-making. However, the extent to which ethics codes are actually used by executives when making strategic choices as opposed to being merely symbolic is unknown. We develop our hypotheses by combining stakeholder management theory and the theory of planned behavior, and test them with a survey of 302 senior financial executives (e.g., CFOs, VPs of Finance). We find that financial executives are more likely to integrate their company's ethics code into their strategic decision processes if (a) they perceive pressure from market stakeholders to do so (suppliers, customers, shareholders, etc.); (b) they believe the use of ethics codes creates an internal ethical culture and promotes a positive external image for their firms; and (c) the code is integrated into daily activities through ethics code training programs. The effect of market stakeholder pressure is further enhanced when executives also believe that the code will promote a positive external image. Of particular note, we do not find that pressure from non-market stakeholders (e.g., regulatory agencies, government bodies, court systems) has a unique impact on ethics code use. Copyright © 2004 John Wiley & Sons, Ltd.

The recent high-profile scandals of Enron, Andersen, Adelphia, Rite-Aid, and WorldCom, among many others, highlight the consequences of corporate malfeasance. The questionable and often self-serving decisions made by a few top executives have had far-reaching performance implications

affecting various stakeholders including employees, creditors, customers, suppliers, shareholders, and citizens at large. The lack of ethical reasoning in the strategic decision processes of these executives has damaged the integrity of financial markets and corporate governance systems in general.

According to Hosmer (1994), a firm's strategic decision process should extend beyond economic considerations; the process ought to be viewed as a means of building trust with a firm's stakeholders. Such trust will lead to higher commitment, greater effort, and ultimately superior long-term performance (Hosmer, 1994). Indeed, the effective

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management of stakeholder concerns can be a source of competitive advantage and has been shown to generate superior shareholder value (e.g., Hillman and Keim, 2001). One avenue through which stakeholders can influence executive decision processes is by pressuring top management to implement ethics codes. These codes are a governance mechanism that projects broad ethical values regarding the treatment of various stakeholder groups (Weaver, 1993). Such codes can have significant strategic benefits and can potentially influence long-term performance by deterring inappropriate decisions and behavior and enhancing the reputation and image of the firm with respect to its stakeholders (Weaver, Trevino, and Cochran, 1999a).

A recent survey finds that 78 percent of large firms have adopted formal codes (Weaver, Trevino, and Cochran, 1999b). The ubiquity of these ethics codes is likely to increase. In response to the recent indiscretions of some of their member firms, the New York Stock Exchange, acting at the behest of the SEC, is requiring listed companies to adopt and publish ethics codes in an effort to regain the trust of key stakeholders (*The Economist*, 2002).

Although the *adoption* of ethics codes is widespread, the actual *use* of such codes by executives remains speculative (Carroll and Buchholtz, 2003). Management can adopt policies largely for symbolic purposes without necessarily applying them in practice (Westphal and Zajac, 1994, 2001; Zajac and Westphal, 1995). The distinction between ethics code adoption and ethics code use is non-trivial. Enron's ethics code was extremely detailed, numbering over 60 pages. However, there is little evidence that this code was internalized into the strategic decision-making processes of their executives.

When are ethics codes substantive documents guiding the decisions of top management and when are they merely symbolic and not integrated into strategic choices? This is the underlying question guiding our research. Our study differs from prior research examining factors determining whether firms adopt formal ethics codes (e.g., Weaver, Trevino, and Cochran, 1999a). We take the next step and consider when it is that financial executives use the codes that their firms have told stakeholders they have adopted.

We specifically focus on the decision-making process of Chief Financial Officers (CFOs, VPs of Finance, etc.). With increases in derivatives, junk

bonds, and mergers/acquisitions, and as stewards of a central financial resource for their firms, such executives have become particularly important members of the top management team. They have a significant influence on a firm's strategic direction and contend with a wide array of stakeholders ranging from market analysts, investors, merger partners, shareholders, and regulatory agencies. The typical economic mindset of financial executives is commonplace among the overall top management team. Indeed, a significant percentage of CEOs come through the financial ranks (Ocasio and Kim, 1999). Moreover, many of the ethically challenging strategic decisions today are financial and relate to information disclosure and planning processes.

THEORETICAL FRAMEWORK

To formulate our hypotheses about ethics code use, we integrate Ajzen's (1991) theory of planned behavior with theory on stakeholder management (Hill and Jones, 1992; Mitchell, Agle, and Wood, 1997; Quinn and Jones, 1995). We address the following: (1) How does social pressure from different classes of stakeholders (customers, competitors, suppliers, banks, courts, government, etc.) influence the extent to which financial executives actually use ethics codes when making decisions? (2) Are particular stakeholders more influential in determining whether ethics codes are internalized in executive decision-making? (3) How do financial executives' beliefs regarding the potential benefits of ethics codes influence their use? (4) Does training in how to apply ethics codes influence their use?

We use the theory of planned behavior (Ajzen, 1991) because we are investigating decision processes that take place in a constrained environment where social variables are also salient. According to the theory of planned behavior, an individual's decision to engage in a behavior (e.g., adherence to firm policy, participation in an activity, etc.) will depend on three general factors. The first factor is the subjective norm or the pressure felt from salient social referents or stakeholders by the individual to pursue the course of action in question. The second factor is the individual's attitude toward the course of action, or its anticipated consequences (costs and benefits). The third factor is perceived

behavioral control or confidence that one can successfully carry out the action. That is, the more that individuals believe they have the requisite skills and resources needed to perform the behavior of interest, the more likely they will do it (Ajzen, 1991).

In our study, the behavior or action of interest is the incorporation of ethics codes into strategic decision-making. What determines whether or not a financial executive relies on his/her firm's ethics codes when making decisions? Consistent with the theory of planned behavior, it will depend, in part, on the extent to which executives (1) feel pressure from various stakeholders to do so, (2) perceive benefits of having an ethics code, and (3) are provided the requisite resources and training in how to integrate ethics codes into their decision-making.

We also extend the theory of planned behavior in two ways. First, by infusing stakeholder management literature into the planned behavior framework, we are able to refine our expectations regarding the relative influence of classes of stakeholders. We argue that the extent to which ethics codes are actually part of strategic decision processes depends on *which* stakeholders are perceived as providing the pressure. Secondly, we examine joint effects and consider how certain attitudes can act as a catalyst in the relationship between stakeholder pressure and the use of ethics codes.

Perceived pressure from market and non-market stakeholders

Pressure to use an ethics code may come from a variety of stakeholders, such as government agencies, customers, and suppliers (Weaver *et al.*, 1999b). When stakeholders apply pressure on top management to adopt ethics codes, it is their intention to have management *use* these codes when making decisions, as opposed to having the code relegated to a symbolic document—with little consequence for executive actions. Drawing from the theory of planned behavior (Ajzen, 1991), whether or not the codes actually get used in strategic decisions depends, in part, on the recognition by an executive of the pressures emanating from stakeholders and a willingness to comply with that pressure (Fishbein and Ajzen, 1975).

Hypothesis 1: Felt stakeholder pressure will have a positive effect on financial executives'

use of their firms' ethics codes in strategic decision-making.

However, all stakeholders are not equal in the eyes of top management (Agle, Mitchell, and Sonnenfeld, 1999). A hierarchy exists in which some stakeholders are given higher priority in competing stakeholder claims. The salience of stakeholders to an executive will depend on the combination of their relative power, legitimacy, and urgency of demands on the firm (Mitchell *et al.*, 1997). In this regard, stakeholders can be categorized into two distinct groups: market and non-market (Baron, 1995).

Market stakeholders interact with the firm through some form of economic transaction and play an integral role in the firm's value chain (Cummings and Doh, 2000). These stakeholders directly influence the competitive environment of the firm and correspond to fundamental economic forces of competition (e.g., Porter, 1980). Customers, suppliers, employees, banks, and shareholders as well as competing firms compose the market category of stakeholders. Market stakeholders are highly salient because they provide critical and dependency-creating resources that enhance their power *vis-à-vis* the focal firm (Pfeffer and Salancik, 1978). These stakeholders maintain primary relationships with the firm, relationships that provide the firm access to factors of production or lead to the sale of goods or services (Preston and Post, 1975). Without these critical relationships, the firm would cease to exist (Clarkson, 1995). Hill and Jones (1992) maintain that a credible threat of exiting a market exchange relationship and causing undue harm to the firm provides greater power to a market stakeholder than any form of legal recourse. The loss of confidence in the focal firm by market stakeholders may impose instant hardship on the organization and hamper its ability to meet performance expectations.

Non-market stakeholders are those who interact with the firm on a non-economic basis. These interactions are typically mediated by public institutions including regulatory agencies, court system, government bodies, and special interest groups. From a non-market perspective, corporations not only create economic value, but they are also social systems that need to perform acceptably by societal standards. Performance is typically assessed by non-market stakeholders through metrics other

than profit, such as social responsibility (Baron, 1995).

There is empirical evidence of the differences in the salience of stakeholders in the eyes of executives (Agle *et al.*, 1999). There are also theoretical reasons for such differences. Although non-market stakeholders possess a legitimate claim on firms in their domain and can impose pressure through their coercive power (DiMaggio and Powell, 1991), they are not directly involved in the production function of the firm. They lack the economic power over the firm and the threat of exiting an exchange relationship that market stakeholders have. The survival of the firm is not likely to be endangered due to legal penalties, and many firms view such penalties as a 'normal cost of doing business' (Hill and Jones, 1992). Non-market stakeholder claims also tend to be less urgent and frequent. Although the court system can ultimately have a large impact on a firm, regulatory hearings often drag on for extended periods of time. At present, the political position of business is privileged in America and the needs and interests of industry often dominate other institutions, including the government (Korten, 1995).

Management may adopt policies intended to limit their discretion without necessarily implementing such policies merely to appear compliant with stakeholder demands (Zajac and Westphal, 1995). The extent to which policy adoption and policy implementation are decoupled depends in part on the relative power of management *vis-à-vis* external constituencies (Westphal and Zajac, 2001). Similarly, we expect the decoupling of adoption and use of ethics codes to depend on the saliency of the stakeholder groups providing the pressure to use ethics codes to guide decision processes. All things being equal, executives will be more willing to submit to pressure from market stakeholders and are more likely to carry out the sentiments of these stakeholders in the spirit in which they were intended (i.e., code use vs. mere adoption).

Hypothesis 2: Pressure from market stakeholders will have a stronger influence than pressure from non-market stakeholders on financial executives' use of their firms' ethics codes in strategic decision-making.

Perceived benefits of ethics codes

Executives will form attitudes toward a course of action based on their beliefs about the action's consequences (Cordano and Frieze, 2000; Harrison, Mykytyn, and Riemenschneider, 1997). According to the theory of planned behavior, an individual who believes that a particular behavior action will have clear benefits will also be more likely to engage in that action (Ajzen, 1991). Of course, this is consistent with any subjective expected utility or expectancy value perspective on decision-making (Fishbein and Ajzen, 1975).

In this context, however, we can distinguish at least two ways in which ethics code could be seen as beneficial. First, ethics codes can have positive *internal* consequences, promoting a broad ethical culture or value system as well as deterring unethical individual behaviors. Indeed, this internal function is the common (stated) component of most formal ethics codes (Weaver, Trevino, and Cochran, 1999c). In this sense, ethics codes are used because they are seen as providing direct guidance for dealing with 'gray areas' of business decisions and delineating what is and is not morally correct (Berman *et al.*, 1999; Quinn and Jones, 1995). The underlying rationale is to do the right thing—good ethical behavior is believed to be an end in itself, independent of profitability or effects in the firm's environment.

A second potential benefit of ethics codes uses not so much in doing the right thing, but rather in promoting a positive *external* image of the firm, influencing the perceptions of the firm's stakeholders, and generating reputational returns. This benefit derives from an instrumental perspective on stakeholder management (Berman *et al.*, 1999; Quinn and Jones, 1995). According to this perspective, a strategic gain from using ethics codes is a favorable reputation that will attract and retain customers, suppliers, and business partners and ultimately provide a competitive advantage (Fombrun and Shanley, 1990; Weigelt and Camerer, 1988). Executives may see the benefit of ethics code use in molding the perceptions of their stakeholders regarding the ethical values of the firm by having formal ethics codes.

Adoption of policies such as ethics codes may be largely symbolic (Westphal and Zajac, 1994), existing to help assure regulators that the firm is capable of policing itself and thus limit the

legal and regulatory actions taken against the firm.¹ Given the overwhelming majority of firms that have adopted such codes, however, a firm can obtain limited strategic differentiation from having ethics codes serve merely as a symbolic document. On the other hand, demonstrable *use* of such policies may signal more genuine ethical concern to important stakeholders. Realizing the benefits of a positive external image from an ethics code depends on the code actually influencing decision-making and behavior, especially among top managers.

Hypothesis 3: Both internal and external perceived benefits will have a positive influence on financial executives' use of their firms' ethics codes in strategic decision-making.

Joint effects

Although interactions between stakeholder pressure (subjective norm) and perceived benefits (attitude) were not originally formulated in the theory of planned behavior, they have recently been proposed and supported (Florey and Harrison, 2000). Consistent with the original theory, we have argued that executives' use of ethics codes will depend on pressure to do so from salient stakeholders. However, for financial executives to respond to stakeholder pressure, they have to believe that by doing so their image in the eyes of the stakeholders will be enhanced, and the stakeholder pressure will be buffered. If the financial executives do not foresee such benefits, they are not likely to respond to felt pressure in a positive way.

If executives strongly believe in the reputational value of ethics codes, they will be more willing to adhere to stakeholder pressure and use such codes. Conforming to the demands of salient stakeholders and a general concern for corporate image are mutually supportive. There is a 'match' between the external benefits of a positive reputation and the pressure to use ethics codes from those stakeholders for whom reputation matters. In essence, beliefs regarding the reputational effects of ethics

codes will act as a catalyst for the relationship between stakeholder pressure and ethics code use.

Hypothesis 4: The relationship between stakeholder pressure and financial executives' use of their firms' ethics codes in strategic decision-making will be stronger when the codes are seen as promoting a positive external image.

Training in ethics code principles

Beyond the perceived benefits and stakeholder pressure to use an ethics code, whether or not executives actually use their firms' code will likely depend on their knowing *how* to do so effectively. In general, training is both a source of valuable knowledge and skills, but it is also a strong source of self-efficacy (conceptually very similar to perceived behavioral control; Ajzen, 1991; Tannenbaum and Yukl, 1992). Further, because many strategic decisions have ethical implications, and the correct application of ethical principles is not always clear (Quinn and Jones, 1995), education or training is necessary. There has been extensive research examining the relationship between ethics training and a change in an individual's decision processes with regard to ethical situations (Kohlberg, 1976). Rest and Thoma (1986) reviewed 55 of these studies and concluded that ethics training in general has a significant and positive influence on decision-making, with a particularly strong impact for adult trainees. Similarly, we expect that training on the principles of ethics codes will provide an awareness and an understanding of how ethics codes might apply in various decision-making contexts.

Hypothesis 5: Training in ethics codes principles will be positively related to financial executives' use of their firms' ethics codes in strategic decision-making.

METHOD

Sample and procedure

To test our hypotheses, we relied on telephone interview responses from senior financial officers. Focusing on one executive position also allowed us to design our questions in a way that the language (jargon) could be specifically targeted

¹Indeed, the growth in corporate ethics programs has been attributed partly to the implementation of sentencing guidelines by the United States Sentencing Commission (Metzger, Dalton, and Hill, 1993). According to these guidelines, convicted firms may receive reduced fines if they can demonstrate formal attempts to monitor their own behavior.

toward and interpreted by the sample members (cf. Uddin and Gillett, 2002). To increase the response rate and enhance the external validity of the data, the Gallup Organization was engaged for data collection. The use of Gallup provided a high level of legitimacy for the study and strong assurance of confidentiality for the respondents. This was particularly critical given the sensitive nature of the questions associated with ethical decision-making and the potential for socially desirable responses. We were also concerned that a mailed survey could potentially be filled out by an assistant (severely damaging construct validity).

The interviewers were formally trained by one of the authors. Specific approaches to the interviews and callback procedures were established to maintain consistency and quality control over the interview process; extensive monitoring of the callback process was also instituted. The interviews with senior financial officers were scheduled in advance to promote cooperation and minimize disruptions to corporate operations.

After a pretest with a subsample of financial executives to refine wording and format, we simplified and arranged the interview protocol to closely fit a written questionnaire format. Specific questions in the protocol were worded and sequenced to reduce potential for carryover response bias in that response anchors were different across measured constructs, and items operationalizing the dependent construct (ethics code use in strategic decision-making) were separated in time and question order from items measuring the independent constructs and control variables (Harrison, McLaughlin, and Coalter, 1996).

The population of firms that we considered was limited to those firms who had senior financial executives who were members of the Financial Executives Research Foundation (mentioned at the beginning of the interview to reinforce the legitimacy and potential usefulness of survey content).² We stratified this sample by size (*Fortune* 1000, non-*Fortune* 1000) and industry sector (manufacturing, service) to further enhance its representativeness. Four hundred and fourteen firms were then randomly selected. The targeted sample of 414 firms contained an equal number of firms

² Virtually all of the *Fortune* 1000 firms had financial executives that were members. Thus given the random selection of firms and the 98 percent response rate, there should not be any systematic difference between those in our sample and the population of *Fortune* 1000 firms.

from the *Fortune* 1000 and those firms that were smaller, and an equal number from manufacturing and service sectors. The overall response rate for the telephone survey was 98 percent (407 firms). This is strikingly high compared to norms of other executive surveys (Cycyota and Harrison, 2002), which we attribute both to Foundation sponsorship and the use of a prestigious, professional survey organization.

Of the 407 responding firms, 302 had formal ethics codes (74%). This adoption rate is consistent with other studies (e.g., Weaver *et al.*, 1999c). Because our model concerns the *use* of ethics codes that have already been adopted, we retained this sample of 302 executives for our analysis. Ninety-six percent of the financial executives were male. Mean age and corporate tenure of the respondents were 47 and 13, respectively. It is also worth noting that these data were collected prior to the Enron scandal and subsequent high-profile reports of corporate wrong-doing. Thus, responses are not tainted by the heightened social awareness and social desirability demands that would likely exist in post-Enron data.

Measures

Although we drew from Ajzen (1991) in formulating hypotheses about ethics code use by executives, our purpose was to begin to structure the conceptual and substantive domains for this aspect of strategic decision-making rather than conduct the *n*th test of the theory of planned behavior (over 100 such tests have been performed, with well over an additional 1000 citations to the theory; Armitage and Connor, 2001). Because the domain of ethics code use has not been previously explored, we developed our own instrumentation. We describe the measures of each of our hypothesized constructs below and then provide evidence of their validity.

Ethics code use in strategic decision-making

We measured ethics code use with a five-item scale. Senior financial officers were asked: 'How helpful (1 = not helpful, 7 = very helpful) have you personally found your firm's code of ethics to be in ... (1) making financial decisions, (2) making personnel decisions, (3) making decisions about information disclosure, (4) responding to questions about company actions, and (5) aiding

your firm's planning processes?" Each item was recoded on to a 0–6 scale and the item scores were averaged for the composite measure. Estimated reliability of this composite was $\alpha = 0.82$.

Stakeholder pressure

This measure set involved a single stem, asking executives to respond on unipolar scales for several stakeholders. The stem question was: 'In your opinion, how strong were the following forces in pressuring (1 = no pressure, 7 = intense pressure) your firm to adopt a code of ethics?' Responses were given for market stakeholders: (1) customers, (2) suppliers, (3) union groups, (4) shareholders, (5) banks, and (6) competitor code; and then non-market stakeholders: (1) regulatory agencies, (2) court system, and (3) other government bodies. Each item was recoded onto a 0–6 scale and the item scores were averaged for the composite measures. The coefficient alpha was 0.85 for the six-item measure of market stakeholder pressure and 0.87 for non-market stakeholder pressure.

Perceived benefits

This measure set involved a series of Likert-type items for which executives rated their agreement (1 = strongly disagree; 7 = strongly agree) with a statement that began 'A primary reason for a firm to have an ethics code is ...' and that was completed by one of many different positive outcomes of having such a code. As we argued above, there are both internal and external benefits; and, as we note below (under 'Construct validity'), the internal benefits themselves have distinct dimensions in the minds of executives. One such dimension was *deter unethical behavior*, which involved four ways to complete the statement above, namely to 'deter unethical behavior against' (1) customers, (2) the firm, (3) external parties (e.g., environmental pollution), or (4) other employees. The estimated reliability of this measure was 0.78. Another dimension was *create an ethical firm culture*. It included the following four items: (1) maintain a particular company culture, (2) establish employee obligations to the firm, (3) have consistent values across operations, and (4) express company philosophy. Internal consistency of this measure was $\alpha = 0.80$. A final dimension was *promote a positive external image*. Again, this subset of perceived benefits included four items: (1) protect the

firm against legal action, (2) project a good public image, (3) discourage government scrutiny, and (4) build trust and confidence with external groups and organizations. The coefficient alpha was 0.80. Each item was recoded on to a 0–6 scale and the item scores were averaged for the composite measures.

Training

The following three questions in the interview protocol were used to assess the extent of training undertaken by the corporation to implement their ethics codes, starting with: 'How frequently (1 = infrequently; 7 = frequently) has the firm resorted to the following efforts to secure compliance with the company code of ethics?' Items included 'ethics training programs (e.g., classes, workshops, video, presentations)' for (1) top management, (2) middle management, and (3) lower-level employees. The estimated reliability was $\alpha = 0.91$.

Control variables

In addition to our theoretical variables of interest, we also measured a number of individual, firm, and industry factors used often in strategic management research. These were simple self-reports of age of the executive, gender, tenure at the firm, firm ownership (0 = private, 1 = public), size of firm (log-transformed sales), and industry sector (eight options, resulting in seven dummy variables used in later regression).

Construct validity

Factor analyses

As we mentioned above, we pretested our instruments to make sure the wording and response format were understandable. After collecting data from the main sample, we conducted a series of exploratory (EFA) and confirmatory factor analyses (CFA) to assess convergent and discriminant validity (e.g., Hinkin, 1998). We used an iterative process to specify the measurement model on the basis of both content and statistical considerations (Anderson and Gerbing, 1988). We initially performed EFA on a random one-third ($n = 99$) of the data from the 292 executives who had complete

observations, and we then tested the fit of the measurement model using CFA on holdout data from the remaining two-thirds of the executives.

Convergent validity in the latter analyses was indicated by size of the factor loadings, which ranged from 0.54 to 0.97 and averaged $\lambda = 0.74$. We assessed discriminant validity by comparing our target measurement model with various nested models, moving from a highly restricted single-factor structure to a final, target structure that contained seven factors (ethics code use, two forms of stakeholder pressure, three perceived benefits dimensions, and training). Chi-square difference tests for the nested models were consistently large and significant, showing that large improvements in fit were gained as we moved from restricted models to the target model. Our target, seven-factor model fit extremely well on all of the multiple indices recommended for evaluating a CFA solution (Jöreskog and Sorbom, 1989: $\chi^2 = 360.88$, d.f. = 356, $p > 0.10$; RMSEA < 0.01; CFI, NNFI > 0.99; excellent fit is marked by RMSEA < 0.05 and CFI, NNFI > 0.95; Bagozzi and Yi, 1988). Note that such an analysis holds all cross- or 'off-' loadings at zero, and therefore provides strong evidence of discriminant validity. Moreover, the median correlation between the factors was $r = 0.21$.

Response biases

A chief threat to our investigation was the operation of social desirability effects or other same-source, self-report processes that might lead to spurious patterns in our data. To evaluate this threat, we fit a single-factor model 'common methods only' or 'social desirability only' CFA model, which had a very poor fit (meaning those biases could not explain the observed relationships: $\chi^2 = 2730.57$, d.f. = 377, $p < 0.001$; RMSEA = 0.18, CFI = 0.69, NNFI = 0.68). In addition, socially desirable responding would have been manifested by 'ceiling' or 'floor' effects in the original data: executive responses that were stacked up at the high end of positive statements or at the low end of negative statements. Those ceiling and floor effects were not present in our data. Ethics code use had a mean almost exactly at the scale midpoint (25 vs. 24; see Table 1), and its distribution reflected textbook normality, with a Wilke-Shapiro value of 0.98 (1.00 is perfectly Gaussian) and responses ranging from the minimum (6) to the maximum

(42). Indeed, none of our theory-based measures had skewness or kurtosis values higher than $|0.5|$, which is far from the $>|2.5|$ range that signifies psychometric or statistical trouble). At the individual item level, the skewness was toward the *least* socially desirable answers. There is no evidence the interviewees were pulling their punches regarding their use of and perceptions of their firm's ethics code.

RESULTS

Table 1 reports the means, standard deviations, and correlation coefficients between the dependent, independent, and control variables. We find that, on average, the financial executives perceived greater pressure from non-market stakeholders than market stakeholders. Table 2 reports the hierarchical regression models used to test our hypotheses.

In Hypothesis 1, we predicted that the strength of stakeholder pressure would positively influence ethics code use among executives. We tested for the dual entry of both market and non-market stakeholder pressure. Their combined effect was significant ($F_{2,275} = 6.82$, $p < 0.01$). However, the main effects regression results in column 2 of Table 2 indicate that when entered simultaneously market stakeholder pressure has a positive influence on senior financial executives' use of ethics codes ($\hat{\beta} = 0.24$, $p < 0.01$), but the effect of non-market stakeholder pressure was not significant ($\hat{\beta} = -0.11$, $p > 0.10$). Thus, Hypothesis 1 was partially supported, but the nature of the equivocality may be reflected in the pattern of coefficients implied in Hypothesis 2. To determine if there was indeed a stronger impact of market than non-market forces, we used Cohen and Cohen's (1983) test for differences in regression weights. Supporting Hypothesis 2, we found a higher weight for market pressure ($F_{1,273} = 8.41$, $p < 0.01$).

Framed as a question, Hypothesis 3 asks: Do perceived benefits of adopting ethics codes matter for their use? Correlations in Table 1 and regression results in Table 2 (column 2) demonstrate that they do, even when stakeholder pressure is also accounted for. Two of the three dimensions of perceived benefits—creating an ethical firm culture and promoting a positive external image—contributed uniquely to the prediction of ethics code use by executives ($\hat{\beta} = 0.21$, $p < 0.01$

Table 1. Means, standard deviations, estimated reliabilities, and correlations of independent, control, and dependent variables

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. Ethics code use in decision-making	3.10	1.18	(0.82)																		
2. Age	47.30	7.15	0.04																		
3. Gender ^a	0.97	0.17	-0.05	0.13																	
4. Tenure	12.80	9.57	0.12	0.53	0.03																
5. Ownership ^b	0.56	0.50	-0.01	0.29	0.06	0.36															
6. Sales (log-transformed)	19.70	1.47	-0.06	0.27	0.03	0.30	0.52														
7. Agricultural	0.01	0.08	0.03	0.06	0.01	0.10	0.08	0.06													
8. Financial	0.12	0.33	0.08	-0.07	-0.06	-0.11	-0.20	-0.11	-0.03												
9. Service	0.18	0.39	-0.09	-0.16	-0.14	-0.13	-0.18	-0.15	-0.04	-0.18											
10. Manufacturing	0.45	0.50	0.10	0.14	0.11	0.17	0.26	0.19	-0.08	-0.34	-0.43										
11. Transportation	0.03	0.18	-0.12	-0.03	0.03	-0.09	-0.04	0.07	-0.02	-0.07	-0.09	-0.17									
12. Utility	0.07	0.25	-0.06	0.03	0.05	0.08	0.10	0.03	-0.02	-0.10	-0.13	-0.25	-0.05								
13. Retail	0.10	0.30	-0.02	0.06	-0.01	-0.02	-0.04	0.01	-0.03	-0.12	-0.16	-0.30	-0.09								
14. Normative pressure: market stakeholders	1.41	1.24	0.29	0.01	0.13	0.05	0.02	-0.03	0.10	0.07	-0.11	0.03	0.06	-0.09	(0.85)						
15. Normative pressure: non-market stakeholders	2.28	1.80	0.14	-0.08	0.07	-0.02	-0.10	-0.06	0.10	0.14	-0.05	-0.04	0.08	-0.09	0.61	(0.87)					
16. Perceived benefit: deter unethical emp. behavior	4.58	1.05	0.23	0.01	0.03	0.06	0.03	0.08	0.06	0.05	0.01	-0.01	-0.02	-0.04	-0.02	0.09	0.15	(0.78)			
17. Perceived benefit: create ethical firm culture	4.68	1.03	0.31	0.07	0.03	0.08	0.17	0.13	0.02	0.06	-0.02	-0.11	0.06	-0.01	0.08	-0.02	0.32	(0.80)			
18. Perceived benefit: promote positive ext. image	3.82	1.22	0.28	-0.04	-0.09	0.10	0.01	0.03	0.06	0.12	-0.13	0.08	0.02	0.03	-0.16	0.27	0.39	0.21	0.24	(0.80)	
19. Training in ethics code principles	2.33	1.73	0.29	0.17	-0.03	0.16	0.23	0.14	0.03	0.06	-0.05	0.10	-0.10	0.02	-0.11	0.26	0.14	0.16	0.17	0.14	(0.91)

^aFemale = 0, male = 1; ^bprivate = 0, public = 1; correlations >0.12 and 0.15 are significant at $p < 0.05$ and $p < 0.01$, respectively; estimated reliabilities are given in parentheses on the diagonal.

and $\hat{\beta} = 0.14$, $p < 0.05$, respectively). Therefore, Hypothesis 3 was partially supported.

We argue in Hypothesis 4 that combining stakeholder pressure to use codes with perceptions that codes promote a positive external image would spark an even stronger use of ethics codes by executives. This hypothesis was tested by adding the appropriate 'pressure' by 'benefit' interaction terms to our regression. Results are given in column 3 of Table 2. The addition of the interactions improved prediction of ethics code use ($\Delta R^2 = 0.03$, $p < 0.05$). Moreover, consistent with Hypothesis 4, the market stakeholder pressure \times promote positive external image coefficient was significantly positive ($\hat{\beta} = 0.80$, $p < 0.05$). To gain further insight into the nature of the moderation effect, we plotted the interaction using one standard deviation above and below for the interacting variables. As seen in Figure 1, there is a significantly stronger positive relationship between

market stakeholder pressure and use of ethics codes when beliefs regarding the image-building value of such codes are high than when they are low. The non-market stakeholder pressure to promote positive external image interaction term was not significant.

A final hypothesis prompted by the theory of planned behavior was that training served as a means of providing executives with *greater perceived control* over their use of ethics codes, leading them to be incorporated more heavily in strategic decision-making. This link between training and use of ethics codes was significant in the main effects regression model ($\hat{\beta} = 0.18$, $p < 0.01$). Hence, Hypothesis 5 was supported.

DISCUSSION

As has been recently apparent, unchecked, self-serving interests of executives and the neglect of

Table 2. Regression tests of hypothesized determinants of executives' use of ethics codes in decision making

Predictors	Controls-only model		Main effects model		Moderated effects model	
	$\hat{\beta}$	S.E. ($\hat{\beta}$)	$\hat{\beta}$	S.E. ($\hat{\beta}$)	$\hat{\beta}$	S.E. ($\hat{\beta}$)
<i>Control variables</i>						
Age	-0.02	(0.07)	-0.01	(0.07)	-0.01	(0.06)
Gender ^a	0.00	(0.06)	-0.07	(0.06)	-0.07	(0.06)
Tenure	0.16*	(0.07)	0.09	(0.07)	0.10	(0.07)
Ownership ^b	-0.02	(0.07)	-0.09	(0.07)	-0.11	(0.07)
Sales (log-transformed)	-0.10	(0.07)	-0.11	(0.06)	-0.09	(0.06)
Agricultural	-0.01	(0.07)	0.00	(0.06)	-0.01	(0.06)
Financial	0.08	(0.12)	0.03	(0.11)	0.04	(0.10)
Service	-0.06	(0.13)	-0.03	(0.12)	-0.04	(0.12)
Manufacturing	0.05	(0.16)	0.09	(0.15)	0.08	(0.15)
Transportation	-0.09	(0.08)	-0.07	(0.07)	-0.05	(0.07)
Utility	-0.07	(0.10)	-0.06	(0.09)	-0.06	(0.09)
Retail	0.00	(0.11)	0.05	(0.10)	0.04	(0.10)
<i>Theoretical variables</i>						
Pressure from market stakeholders			0.24**	(0.07)	-0.43	(0.31)
Pressure from non-market stakeholders			-0.11	(0.07)	0.38	(0.33)
Perceived benefit: deter unethical emp. behavior			0.09	(0.06)	0.08	(0.06)
Perceived benefit: create ethical firm culture			0.21**	(0.06)	0.22**	(0.06)
Perceived benefit: promote positive ext. image			0.14*	(0.06)	0.05	(0.14)
Training in ethics code principles			0.19**	(0.06)	0.18**	(0.06)
<i>Moderator terms</i>						
Promote positive ext. image \times Market stakeholders					0.80*	(0.39)
Promote positive ext. image \times Non-market stakeholders					-0.59	(0.36)
Adjusted R^2	0.02		0.23**		0.25**	
ΔR^2	0.02		0.21**		0.02*	
F for full model	1.39		5.64**		5.38**	
d.f.	12,279		18,273		20,271	

^aFemale = 0, male = 1; ^bprivate = 0, public = 1; * $p < 0.05$; ** $p < 0.01$; standardized regression coefficients are reported.

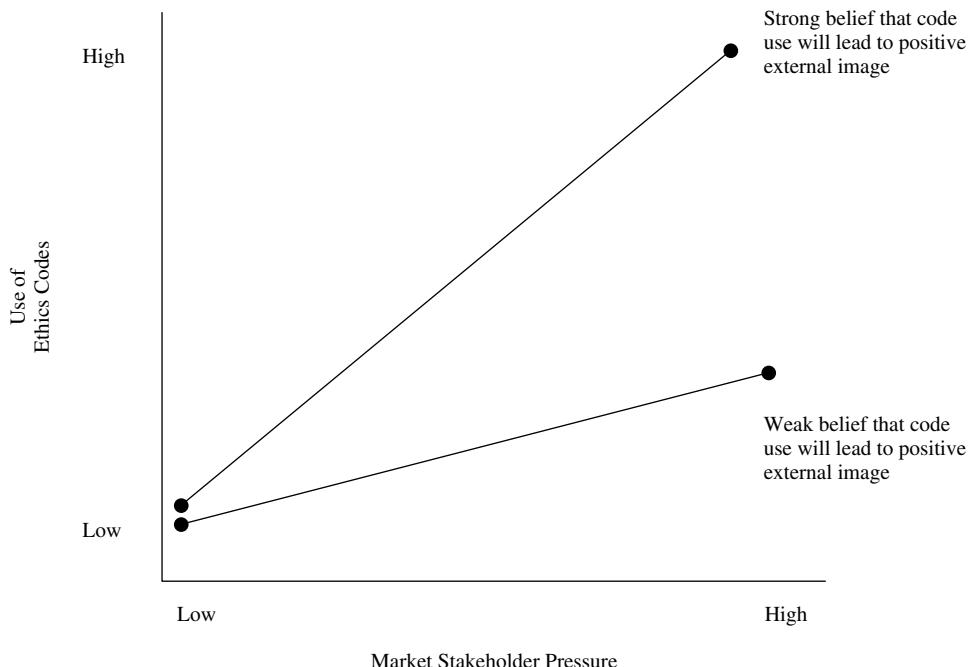


Figure 1. Market stakeholder pressure/positive external image interaction

key stakeholder concerns can have wide-ranging and severely damaging effects. Stakeholders may attempt to rein in such executive decisions by encouraging the adoption of ethics codes (Weaver *et al.*, 1999a). However, the vast majority of larger firms already maintain ethics codes. The (literally) billion-dollar question is what factors lead executives to actually *use* their firm's code in strategic decisions, treating them as substantive as opposed to symbolic documents.

Implications for research

Our study attempts to answer that question using social, attitudinal, and control-related factors drawn from Ajzen's (1991) theory of reasoned action. Overall, the theory worked. All three factors had unique inputs to the use of ethics codes in strategic decision-making. These results fit with the pattern of many other investigations of executive and non-executive samples (Armitage and Connor, 2001; Cordano and Frieze, 2000) and bode well for the theory's application to other aspects of (individual) strategy-making or strategy-implementation processes.

In terms of social inputs, we found that senior financial executives make greater use of ethics

codes when they feel pressure from market stakeholders (e.g., customers, suppliers, shareholders), but not necessarily from non-market stakeholders (regulatory agencies, government bodies). We argue that this difference is due to a greater salience of market stakeholders to top managers than non-market stakeholders because of their power over resources critical to the production processes of the firm, their legitimate claims on the firm, and the urgency of their demands (Agle *et al.*, 1999; Mitchell *et al.*, 1997). Our results are consistent with the findings of studies by Westphal and Zajac (1994) and Zajac and Westphal (1995), who proposed a symbolic management perspective for corporate governance. They suggest that top managers satisfy external demands for greater accountability by merely adopting policies and not implementing them. We find this to be true for ethics codes when non-market stakeholders are perceived to be providing the pressure.

We also found that the input of market stakeholder pressure is heightened when it is coupled with positive attitudes toward an image enhancement function of ethics code. That is, market stakeholder pressure is especially influential when it is matched to an executive who already sees some external reputation benefits to using an ethics code. At first blush, this catalytic effect might

seem obvious, but there was *no* parallel catalytic effect for non-market stakeholder pressure and image enhancement. A cynic might also argue that this is exactly the place where codes are simply symbolic. However, the effect we revealed is on the extent of ethics code *use*, rather than mere adoption. The opposite combination—firms that receive weak market stakeholder pressure and executives who have negative attitudes—is where ‘symbolic’ arguments have the greatest traction, and where firms may have adopted codes merely for symbolic purposes (Westphal and Zajac, 1994).

In terms of attitudinal inputs, we found the expected effects of perceived benefits of ethics codes; such attitudes directly influence the extent to which executives rely on such codes when making decisions. The content of perceived benefits is perhaps more interesting and important than their demonstrated effects because they could be incorporated into training programs. For example, reputational benefits of ethics codes appear to resonate convincingly with executives and encourage them to use ethics codes. Perhaps an awareness of the link between a firm’s image and economic gains (Fombrun and Shanley, 1990) carries over to individual decision-making behavior, a question that might be investigated more thoroughly in future research. The belief that ethics codes deter unethical behavior was not uniquely related to code use. Unlike the other two benefits (promoting a positive external image; creating an ethical internal culture), deterring unethical behavior is specific to the individual as opposed to the firm as a whole. Although executives may appreciate the fact that ethics codes curb unethical activities, that appreciation is decoupled from their own use, perhaps because of our emphasis in the dependent variable on the strategic rather than everyday portion of their decisions.

In terms of control-related inputs, the breadth and frequency of training efforts by the firm were also implicated in ethics code use. This again highlights a way that firms can push their ethics codes to serve as more than symbolic. However, we did not investigate the recency of training or how tightly bundled it was with other firm-level efforts to ingrain ethics codes use into member behavior. It may be important to know the ‘staying power’ of the training effect. Future research could examine how regularly scheduled updates or reinforcements (perhaps through performance appraisal) might be

needed to maintain ethics code use over the long term.

What might be the implications of maintaining an ethics code that is more symbolic than substance? Westphal and Zajac (1998) found that the stock market reacted positively to the adoption of long-term incentive plans regardless of their implementation. Moreover, the symbolic adoption of such plans appears to appease key stakeholders and reduces the likelihood of adopting future governance mechanisms. Future research on ethics codes should consider how the decoupling of adoption and use influences performance and subsequent policy actions.

Implications for practice

Ethics codes can play a significant role for overall firm performance. Hillman and Keim (2001) find that those firms that build better relations with primary stakeholders including employees, customers, suppliers, and communities have greater shareholder value than those that do not. Indeed, recent corporate scandals have shown how a loss of trust can adversely influence stock price. Boards of directors can install ethics codes as a tool to ensure that executives give appropriate consideration to this broad base of stakeholders. However, our results suggest that to enhance the effectiveness of these codes executives need to be convinced of the benefits of the codes to the firm and be provided training on how to use these codes. Simply formulating and distributing such codes does not appear to be adequate. Perceptions regarding the value of these codes may need to be actively managed.

Our results also have implications for both regulatory and firm policy. Derber (1998) argues that the 1980s and 1990s constituted another Gilded Age, similar to the era of robber barons, and corporations increased their power *vis-à-vis* government through the globalization process. Because of recent corporate malfeasance affecting millions of stakeholders, we may begin to see a pendulum shift toward the government’s attempting to increase its countervailing power over corporations. However, our results suggest that regulatory mandates such as those recently issued to use ethics codes may not be an effective means to constrain executive indiscretion. Although firms may be coerced to adopt ethics codes in response to regulatory pressure, they are more likely to become symbolic and

not integrated into the decision processes of key executives. In contrast, executives do respond to pressure from market stakeholders with regard to their use of ethics codes, particularly when they believe such codes promote a positive external image of the firm.

There has been some controversy regarding the application of instrumental perspectives on stakeholder management (Berman *et al.*, 1999). Advocates of an instrumental perspective maintain that voluntary moral–ethical restraint can lead to reputational gains and profits. An instrumental perspective of stakeholder management is a means to an end where the end is profit maximization. In contrast, Quinn and Jones (1995) argue that instrumental ethics is illogical and ethics policies that are justified on a strategic basis are not likely to provide the firm with economic benefits. Executives will be unable to ‘fake integrity’ when their underlying motivation is profit maximization. However, our study shows that when executives believe in the strategic and reputational benefits of ethics codes they are more likely to adhere to such codes. Ethics programs based on an instrumental perspective should be effective in terms of influencing top management decision processes.

Limitations and conclusion

Despite the study’s methodological strengths, including an unusually high response rate from a top-level executive sample, certain limitations must also be acknowledged. We relied solely on perceptual measures from a survey instrument; future research efforts might concentrate on ways to use archival data to measure some of our constructs. However, perceptual measures are considered appropriate given the descriptive nature of our research questions. How managers perceive and interpret their environment influences the manner in which they make decisions (Boyd, Dess, and Rasheed, 1993). Although common methods variance can also be an issue when data are collected through a single method, results of several different and converging analyses provide support for the validity of the model’s constructs. The relationships cannot be attributed to common methods variance alone, especially those involving interactive and differential effects (Evans, 1985).

We also relied solely on senior financial executives for our sample. Although this focus enabled

us to tightly align the content of our questions to the sample, it does limit overall generalizability of the study. There may be systematic differences across functional areas. Future studies might examine whether executives in financial and marketing functions are more sensitive to market pressure than executives from human resources or legal functions, and whether the salience of and responsiveness to particular stakeholder groups has implications for performance.

Our research suggests other worthy avenues for research. We have integrated the theory of planned behavior with stakeholder theories to develop a descriptive model describing the effectiveness of ethics codes as a governance mechanism. In their strategic decision-making, we have found that executives respond to what they feel they are expected to do (stakeholder pressure), what they would like to do (perceived benefits), and what they think they can do (training). If firms and their stakeholders want ethics codes to serve as substantive rather than symbolic documents, working through these three paths—simultaneously—would appear to have the greatest impact.

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