
Ethical Practices in Mexico's Large Companies

Las prácticas éticas en empresas grandes en México

**Eugenio
Gómez-Alatorre**

IPADE Business School

Received: June 3, 2019.
Approved: April 16, 2020.

Abstract

This article evaluates the current status of ethical practices in large companies operating in Mexico. The article analyzes the results of a survey (of 107 large companies) and shows the type of ethical practices that companies have adopted, the degree of implementation of these practices, the motivations behind their implementation and the perceived impact of such practices on organizations. This article helps to fill the gap of analysis about ethical practices in Mexico.

We find that large companies in Mexico have implemented a set of formal ethical practices in accordance with international trends. More than 65 % of the companies surveyed reported having an ethics code, a mission and vision statement, formal conflict-resolution mechanisms or speak-up policies, or compliance policies. We found that the three major reasons for developing ethics policies in Mexican organizations are reputation, personal values of the owners or managers, and criminal liability.

Keywords: survey; code of ethics; ethical practices; business ethics; Mexico

JEL Classification: M190

Resumen

Este artículo evalúa el estado actual de las prácticas éticas en empresas grandes en México. Se analiza una encuesta (respondida por 107 empresas) que permite conocer el tipo de prácticas éticas que han adoptado las empresas, el grado de implementación de estas prácticas, las motivaciones que se tienen para implementarlas y el impacto percibido en las organizaciones. El artículo contribuye a llenar una brecha de análisis acerca de las prácticas éticas en México.

Los resultados muestran que las empresas han implementado un conjunto de prácticas éticas de acuerdo con las tendencias internacionales. Más del 65 % de las empresas tienen un código de ética, una declaración de misión y visión, mecanismos formales de resolución de conflictos, políticas de denuncia o políticas de cumplimiento. Las tres razones principales para desarrollar políticas de ética en las organizaciones son la reputación, los valores personales de los propietarios o gerentes y la responsabilidad penal.

Palabras clave: encuesta; código de ética; prácticas éticas; ética empresarial; México

Clasificación JEL: M190

1. Introduction

Ethics represents a constant concern for business managers and putting it into practice in an organization's daily operations constitutes a significant challenge. Little is known about what business managers are doing in Mexico to improve their organizations' ethical performance, how important it is to them, what drives them to make such an effort, and how satisfied they are with the outcomes. This study was motivated by these questions, providing an insight into the matter in the context of Mexico's business environment.

The starting point to improve business ethics in managerial practice is an adequate evaluation of what is needed and what has to be done. Unfortunately, there is not enough available information in the case of companies operating in Mexico to perform such an evaluation. This document is filling this gap by surveying large companies operating in Mexico.

This study presents the findings of a survey examining 107 large companies in Mexico, providing an insight into the degree of implementation of ethical practices in Mexico's largest organizations, as well as into the motivations for implementing them and the ethical sensitivity in organizations — i.e., the importance of considering ethical factors in decision-making.

The results show that large companies in Mexico have implemented a set of formal ethical practices that are consistent with international trends. Ninety-eight per cent have an ethics code in place, 92 % have a mission and vision statement, and 69 % also have formal conflict-resolution mechanisms or speak-up policies, compliance policies (65 %), an ethics committee or equivalent (63 %), and an ethics manager (61 %). However, relatively few companies in Mexico offer ethics training programs (41 %).

The three major reasons for developing ethics policies in Mexican organizations are reputation, the personal values of the owners or managers, and criminal liability. In addition, 54 % of companies consider that they have achieved the level of commitment they were aiming for. The degree of implementation of these practices shows that large companies in Mexico are, for the most part, committed to ethics.

Ethical practices

Business ethics may be defined as “a guide for human excellence in business organizations or, more colloquially, as a guide for human quality in business” (Melé, 2009, p. 10). Business ethics concerns both the individual actions of people engaged in business and the collective actions undertaken within organizations.

As Paine (1994) reminds us, ethics is intimately linked with management: business managers must acknowledge their responsibility in shaping ethical organizations. This requires organizations to have an ethical infrastructure in place. Tenbrunsel *et al.* posit that such infrastructure is composed of “formal and informal systems (...) as well as the climates that support these systems” (2003, p. 287). The organizational climates constitute the most wide-ranging level, comprising both formal and informal systems. According to Newman *et al.*, an ethical climate refers to “shared perceptions between members of an organization or part of an organization as to what constitutes right behavior” (2017, p. 475).

This study focuses on formal or explicit systems of ethics programs, which we shall refer to as ethical practices in accordance to the definition of Kaptein (2015), who defines an ethics or compliance program as “the formal organizational control system designed to impede unethical behavior.”

Brenner proposes that a corporate ethics program “is made up of values, policies and activities that impact the propriety of organizational behaviors” (1992, p. 393). Brenner further claims that ethics programs have both explicit and implicit components. Explicit components consist of formal ethical systems and implicit components consist of informal ethical systems.

Majluf and Navarrete define the explicit components of ethical programs as “all formal systems and procedures intended at establishing what is considered an ethical behavior, and monitoring the way principles, norms and rules are respected in the organization” (2011, p. 568).

While there is no consensus about what may be considered an explicit or formal component and an implicit or informal component, Majluf and Navarrete claim that explicit components typically include codes of ethics, manuals of policies, ethical training, orientation programs for workers, and ethics committees (2011). Brenner, for his part, considers that implicit components of ethics programs include the following elements: corporate culture, incentive systems, valued behaviors, promotion policies, performance measurement systems and management behavior (1992).

Approaches used in ethics programs

Paine claims that two approaches have been used in the implementation of ethics programs in organizations. One is based on compliance and the other is based on integrity or values. The goal of compliance-based ethics programs is “to prevent, detect and punish legal violations” (1994, p. 106). The author also maintains that although integrity-based ethics programs may vary widely in design and scope, “all strive to define companies’ guiding values, aspirations, and patterns of thought and conduct” (1994, p. 107).

One conclusion from her study is that “in the end, creating a climate that encourages exemplary conduct may be the best way to discourage damaging misconduct” (Paine, 1994, p. 117). In other words, she suggests that the values — or integrity-based approach delivers better results. This was empirically proven by Weaver and Treviño, who claim that, overall, “a values orientation makes a greater unique contribution to the measured outcomes when compared to a compliance orientation” (1999, p. 315). Nonetheless, the values-based and compliance-based approaches are not mutually exclusive, and research has proven that better outcomes may be achieved if they are used together (Weaver, 2014).

In line with Weaver’s proposal (2014), the ethics programs implemented by companies in Mexico are based on both compliance-based and values-based approaches, combining them to achieve better results.

Another way of assessing ethical practices is considering the philosophical theory behind their moral motivation. Following de Colle and Werhane (2008), we may consider three main ethical theories. First, the Aristotelian virtue ethics in which happiness (*eudaimonia* in Greek) is the ultimate ethical goal and should be pursued with the cultivation of virtues (Aristotle, 2000; Hartman, 2017). Second, Kantian ethics, which states that moral actions are those undertaken for the sake of duty according to the categorical imperative that compels individuals to act on maxims that should become universal laws (Bowie, 2002; Kant, 1996). And third, Mill’s utilitarianism, which underpins ethics in the Greatest Happiness Principle and seeks to promote (shared) happiness as a measure of the rightness of actions (Gustafson, 2013; Mill, 2014).

Previous research

Previous research has shown the expansion and implementation of ethical practices in various countries. For the US, a survey was sent out to the Fortune list of the

1,000 largest companies ranked by revenues. The survey was completed by 254 companies. The study found that 98 % of companies had an ethics code in place or some other formal ethics-based document, and 54 % of companies had a high-ranking executive charged with the specific task of watching over ethics in their organizations. In addition, about one fifth to one fourth of employees received some kind of ethics training or guidance at least once a year (Weaver, Treviño, & Cochran, 1999).

The questionnaire used in this document was developed to study ethical practices in Spain (Fontrodona & de los Santos, 2004). The authors found that 85 % of the firms surveyed had implemented some kind of ethics practice and the most common practices were the existence of formal documents like declaration of values, ethics codes, or corporate governance codes.

In 2007, a survey of the Fortune Global 200 companies was conducted about business codes (KPMG & RSM Erasmus University, 2008). They defined a business code as “a document developed by and for a company as a guideline for the current and future behavior of its directors, managers and employees” (p. 6). They found that 86 % of the companies surveyed had a code in 2007 and the three most important reasons for having a business code were to comply with legal requirements, to create a shared company culture and to protect/improve company reputation (p. 8).

Muel Kaptein reports the results of a survey of managers and employees (Kaptein, 2010). Unlike the other surveys reported here, the focus of the survey was managers and employees, not companies. They had a bigger sample, but a minority of the respondents were senior managers/junior managers (3.5 % of the sample) or senior executives/officers (2.7 %). Even though the results were not directly comparable to other surveys because of a different sample methodology, the article reported that 81.6 % of the respondents said their company had a code of ethics in 2008 (p. 606). Communication and training to employees on code of conduct was the second most popular ethics program (76.3 %), followed by policies to hold employees accountable for code of conduct violations (71 %).

Another study conducted a survey of Canada's 500 largest companies by revenue according to *the National Post Business Magazine* ranking for 2002 and 2006. The 2002 sample comprised 116 companies, and the 2006 survey covered 107 companies. The latter study found that 91.9 % of companies reported a positive impact of the code of conduct on organizational policies. Also in 2006, 56.6 % of companies reported having an ethics committee in place, and 57.3 % offered ethics training

for employees. In addition, 54.4 % of companies conducted an ethics performance assessment, and 89 % had corporate guidelines in place to support whistleblowers (Singh, 2011).

In Guatemala, the questionnaire developed by Fontrodona and de los Santos (2004) was used to evaluate ethical practices in mid-sized (between 80 and 200 employees) and large companies (more than 200 employees) (Cruz & Fontrodona, 2016). One of the main findings was that formal ethical practices existed in 81 % of the companies. The most common practices were a formal channel to report malpractice or to ask questions about ethics (74 % of the firms), code of ethics (71 %), and a person or a team responsible for ethics (66 %).

More recently, a questionnaire for a study was sent out to members of the US Ethics and Compliance Officers Association, receiving 61 responses from a total of 475 organizations. The authors found that 98 % of companies had an ethics code or policy in place, and an equal percentage offered an ethics training program for employees. Ninety-five per cent of the companies had an internal reporting mechanism in place, and 74 % conducted an assessment of employees' performance (Weber & Wasieleski, 2013).

Weber and Wasieleski also inquired into the reasons behind the development and maintenance of ethics programs. The major reasons they found were "to do the right thing," "comply with government laws" and "provide guidelines for employee conduct" (2013, p. 613).

There are other surveys about ethics, compliance or integrity. See, for example, KPMG (2013, 2019), and PricewaterhouseCoopers (2016), but they have a different focus than the surveys reported here and both kind of surveys are not directly comparable.

In the case of Mexico, no previous study assessing ethical practices in organizations was found. However, in August 1999, IPADE's Philosophy and Business Department and *Mundo Ejecutivo* magazine conducted a survey of 300 companies to study their ethics codes. At that time, 91 % of the 300 companies surveyed had an ethics code in place. The major reasons reported by respondents for having such a code in place were: "It contributes to employee and organizational development," "There must be laws regulating human conduct" and "There needs to be discipline in organizations" (Ibarra Ramos, 2002). This study constitutes an update to these data, covering other types of ethical practices as well. It also inquires into the motivations and perceived usefulness of such practices.

2. Methodology

The study focuses on investigating the ethical practices of large companies operating in Mexico. Following Mexico's *Instituto Nacional de Estadística y Geografía* (INEGI) regarding the publication of the results of the 2014 Economic Censuses, a company shall be considered large based on the criteria published in the *Official Gazette* on December 30, 2002, namely: those having over 100 employees for trade and services, and those having over 250 employees for industrial enterprises.

According to INEGI, large companies account for 0.2 % of the total number of economic entities and 28.8 % of the total occupied workforce in Mexico. Nonetheless, they account for 58.7 % of remuneration, 64.1 % of total gross output, and 64.9 % of fixed assets. These figures reveal the economic significance of large companies in the country, as well as their higher labor productivity compared with smaller economic organizations (INEGI, 2014).

To inquire into the ethical practices of large Mexican companies, a questionnaire was developed in the SurveyMonkey platform and sent by e-mail to 463 business organizations in Mexico. A total of 134 responses were received, and 107 of them had been completed in full. The results shown below are based on those 107 companies.

The response rate raised concerns about self-selection bias. Nevertheless, the final sample represented companies in all sectors of the economy as is shown below, which is an indication of a balanced sample of firms. Moreover, the response rate of 23 % was consistent with similar studies: Singh had a response rate of 21.8 % (2011, p. 269) and the rate of Weber's and Wasieleski's was 12.8 % (2013, p. 612).

As mentioned before, the questionnaire was developed by Fontrodona & de los Santos (2004). They applied the survey in Spain with a response rate of 12.2 %. The questionnaire includes 27 questions and is divided into four parts: corporate ethical sensitivity, corporate ethical practices, future perspectives, and general information about the company.

The survey was answered by senior managers. Most of the respondents (29 %) were CEOs, chairmen, or regional directors; 16 % were the managers responsible for compliance, ethics, corporate social responsibility or sustainability; 13 % were in the human resources department, 8 % were either CFOs or corporate lawyers; and the rest were various top managers in areas like sales, operations, strategy and technology, among others.

Table 1 (see Table 1) shows the companies considered in the study by sector. The number of companies varied considerably by sector, but there was a larger proportion of retail, financial services and insurance companies.

Table 1. Sectors of surveyed companies

Agriculture, Livestock and Fisheries	4.7 %
Mining, Oil and Gas	1.9 %
Construction	2.8 %
Food and Beverage, and Tobacco	11.2 %
Wood, Paper and Cellulose	2.8 %
Chemicals and Petrochemicals	1.9 %
Motor Vehicles and Parts	7.5 %
Electronics	0.9 %
Metals	1.9 %
Concrete, Ceramics and Glass	0.9 %
Other Manufacturing Industries	6.5 %
Retail	12.1 %
Transportation Services and Warehousing	4.7 %
Information, Media and Telecommunications	2.8 %
Financial Services and Insurance	17.8 %
Food Services and Accommodations	2.8 %
Health Care	5.6 %
Professional Services	1.9 %
Other Services	9.3 %

Source: Own elaboration.

The majority (57 %) of the companies surveyed were Mexican. But there were also companies from the United States (18 %), followed by companies from Germany, Japan and Canada (see Table 2).

Table 2. Country of origin of surveyed companies

Mexico	61
US	20
Germany	6
Spain	4
Canada	3
Japan	3
France	2
Switzerland	2
South Africa	1
Denmark	1
South Korea	1
Uruguay	1
Colombia	1
UK	1

Source: Own elaboration.

3. Results

Ethical sensitivity

The first question addresses the sensitivity of organizations toward ethics. In other words, it assesses how concerned they are about ethics, whether they believe ethics plays an important role in business decisions, and whether they consider that ethics has helped the organization in some way.

The surveyed organizations reported that ethics plays a relevant role in decision-making. Nearly half of respondents reported that this is often the case, and 38 % reported that this is sometimes the case. Only 3 % claimed that ethics never played a significant role when making business decisions (see Table 3). The possible answers to this question were often, sometimes, rarely or never. The respondents chose their answers subjectively without any numerical equivalence to each answer.

Table 3. Over the past year, have you had to make decisions in which ethics played an important role?

Often	49 %
Sometimes	38 %
Rarely	10 %
Never	3 %

Source: Own elaboration.

Looking at ethical sensitivity, 67 % of respondents reported that they have often “felt good” ethically when considering the decisions they have made. Furthermore, 83 % of companies having formal ethical practices in place reported that it has often helped them in decision-making. Also, 82 % reported that ethics constitutes a relevant factor in setting objectives and effective targets in their management process.

The business functions that most often report ethical problems include sales, procurement, operations, and accounting and finance departments — in that order (see Table 4).

Table 4. What departments in your organization face ethical problems more often?

Accounting and Finance	14 %
Human Resources	11 %
Procurement	19 %
Sales	26 %
Operations	17 %
Other	14 %

Source: Own elaboration.

The level of commitment to ethical conduct is not the same at all levels of the organization. Respondents reported that ethics is more frequently taken into consideration at the upper management levels of the organization (see Table 5).

Table 5. To what extent do people across the various levels of your organization take ethical criteria into account when acting? (Scale: 4 Often – 1 Rarely)

Governing Council/Board of Directors	3.81
Senior Management	3.77
Middle Management	3.36
Employees	3.09

Source: Own elaboration.

A more detailed analysis of the extent to which ethical criteria are taken into account in performing activities at each level of the organization — where possible answers are *often*, *sometimes*, *occasionally*, and *rarely* — shows that the most common answer by boards of directors and management teams is *often*, with 85 % and 79 %, respectively. But the most common answer by middle managers was *sometimes* (53 %), followed by *often* (41 %). Employees have a more pessimistic perception, as 64 % of them answered *sometimes*, while only 22 % of them answered *often* and 12 % answered *occasionally*. It is thus clear that a particular concern companies should address is how to improve ethical conduct among the most operational levels of the organization.

Ethical practices

This section discusses the ethical practices or formal ethics programs implemented by companies in Mexico. It analyzes what practices have been adopted, who has designed them, and who oversees their monitoring.

The first highly relevant point is identifying what ethics programs or practices have been implemented in Mexican companies. The previous section made it clear that companies are concerned about ethics, but it is relevant to determine what actions they are taking as a consequence — i.e., whether they have undertaken ethical practices to help employees improve their moral conduct.

First, a case in point is the fact that 98 % — virtually all the companies that responded to the survey — have a code of ethics or code of conduct in place, and 92 % have a mission and vision statement. This suggests that Mexico has followed the international trend: “Codes of conduct are often the first measure taken by organizations to regulate the conduct of employees” (Singh, 2011).

A measure that may help employees who care about ethical conduct but for some reason find it difficult to discern is to provide a suitable instrument to ask questions about ethical issues and to report unethical conduct in the organization; 69 % of the companies surveyed had such mechanisms in place. Furthermore, 65 % of respondents reported having ethics compliance policies in place, and 63 % reported having an ethics committee or a comparable body in place.

Also, only 43 % reported having a corporate governance code. Ethics training is also implemented in less than half of the surveyed companies — only 41 % reported having an ethics training program in place (see Table 6).

Table 6. Indicate what practices are implemented in your organization

Code of ethics or conduct	98 %
Mission/vision statement	92 %
Conflict-resolution mechanisms/speak-up policies	69 %
Compliance policies	65 %
Ethics committee or similar body	63 %
Ethics manager or ethics department	61 %
Corporate governance code	43 %
Ethics training program	41 %
Business credo	34 %
Other	11 %

Source: Own elaboration.

Table 7 (see Table 7) relates the ethics programs implemented with the economic sector of organizations. The sectors with the highest levels of implementation of each ethics practice are marked with an H next to the corresponding percentage. An L indicates the sectors with lowest percentages of adoption of each practice.

Table 7. Ethical practices and economic sector

Sector	Mission / Vision statement	Business Credo	Code of ethics or conduct	Corporate Governance code	Compliance policies
Agriculture, Livestock and Fisheries	80 %	20 %	100 %	40 %	60 %
Mining, Oil, Gas and Construction	60 %L	0 %L	100 %	80 %H	40 %
Food and Beverage, and Tobacco	92 %	33 %	100 %	42 %	50 %
Motor Vehicles and Parts	88 %	38 %	75 %L	25 %	75 %
Other Manufacturing Industries	94 %	44 %	100 %	31 %	81 %
Retail	92 %	23 %	100 %	31 %	38 %
Transportation Services and Warehousing	100 %H	20 %	100 %	0 %L	20 %L
Financial Services and Insurance	89 %	32 %	100 %	63 %	74 %
Health Care	100 %H	17 %	100 %	33 %	83 %H
Other Services	100 %H	56 %H	100 %	56 %	83 %H
Total	92 %	34 %	98 %	43 %	65 %

Source: Own elaboration.

The two sectors with the highest levels of adoption of ethical practices are health care and other services (this sector includes mainly holdings and companies with varied business units). The healthcare sector ranks highest in the implementation of mission/vision statements, compliance policies, ethics manager or departments, and conflict-resolution mechanisms/speak-up policies, while the other services sector has the highest percentage of adoption of mission/vision statements, compliance policies, ethics manager or department, and ethics training programs.

Table 7. Ethical practices and economic sector (*continued*)

Sector	Ethics Manager or Ethics Department	Conflict-resolution mechanisms/speak-up policies	Ethics committee or similar body	Ethics training program	Average
Agriculture, Livestock and Fisheries	20 %L	80 %	40 %	40 %	53 %
Mining, Oil, Gas and construction	40 %	60 %	60 %	40 %	53 %
Food and Beverage, and Tobacco	50 %	58 %	50 %	25 %	56 %
Motor Vehicles and Parts	38 %	50 %L	38 %	38 %	51 %
Other Manufacturing Industries	69 %	81 %	75 %	56 %	70 %
Retail	38 %	62 %	31 %L	15 %L	48 %L
Transportation Services and Warehousing	60 %	60 %	60 %	20 %	49 %
Financial Services and Insurance	74 %	74 %	84 %H	42 %	70 %
Health Care	83 %H	83 %H	67 %	50 %	69 %
Other Services	83 %H	72 %	78 %	61 %H	77 %H
Total	61 %	69 %	63 %	41 %	63 %

Source: Own elaboration.

In Table 8 (see Table 8), the ethical practices are compared to the national or foreign origin of organizations. National organizations have a higher percentage of adoption of mission/vision statements, codes of ethics or conduct, and corporate governance codes. On the other hand, foreign companies have a higher proportion of business credos, compliance policies, ethics managers or departments, conflict resolution/speak-up mechanisms and ethics training programs.

Table 8. Ethical practices and country of origin

Ethics program	National origin	Foreign origin
Mission/vision statement	93 %	89 %
Business credo	28 %	41 %
Code of ethics or conduct	100 %	96 %
Corporate governance code	44 %	41 %
Compliance policies	48 %	89 %
Ethics manager or ethics department	52 %	72 %
Conflict-resolution mechanisms/speak-up policies	66 %	74 %
Ethics committee or similar body	62 %	63 %
Ethics training program	36 %	48 %

Source: Own elaboration.

If we look at who is in charge of designing ethical practices, the CEO and the management team are predominantly the ones who fulfill the task. The human resources department and the board of directors also play a key role. In addition, ethical practices are strongly aimed at ensuring compliance with the law (as shown below), and thus participation by the legal and internal audit functions is important (see Table 9).

Table 9. Please indicate the level of participation that the various managers and departments in your organization have had in defining and designing ethical practices

(Scale: 1 No Participation – 4 Close Participation)

President/CEO	3.7
Senior Management	3.6
Human Resources Department	3.5
Governing Council/Board of Directors	3.5
Legal Department	3.3
CSR/Corporate Reputation Department	3.3
Internal Audit Department	3.2
PR/Corporate Communications Department	2.7
External Advisors	2.5
Other	2.4

Source: Own elaboration.

The open question of whether there was any other role or function involved in the definition and design of such practices prompted the following answers: the philosophy department, the compliance department, suppliers of goods and services who support such practices as part of a client and supplier development program, an audit committee composed of independent advisers, and an internal and external audit function.

The implementation of ethics programs must be followed by a proper monitoring function. In organizations operating in Mexico, this task is predominantly undertaken by the human resources department, as nearly one in every five companies has such a configuration. As mentioned earlier, some companies have an ethics committee in place or have appointed someone who is directly responsible for ethics in the organization. Specifically, 16 % of companies rely on an ethics committee to fulfill this function, and 15 % rely on an ethics manager. Notably, in 13 % of companies, this responsibility is attached to the role of the CEO (see Table 10).

Table 10. Who is directly responsible for monitoring ethical practices in your organization?

Human Resources Department	19 %
Ethics Committee	16 %
Internal Audit Department	16 %
Chief Ethics Officer	15 %
CEO/President	13 %
Other (specify)	9 %
CSR/Corporate Reputation Department	7 %
Legal Department	6 %

Source: Own elaboration.

Another interesting finding is what respondents reported when asked about who should be responsible for monitoring. The answers included the following: the risk manager, the comptroller's office, the internal audit and corporate governance manager, the philosophy manager, the compliance and regulatory affairs manager, the internal control manager, and the corporate governance manager, who reports to the chairman of the board. The answers also included the idea that all employees are responsible for ethics. As one of the respondents stated: "All employees and leaders are considered responsible for compliance. It is a shared responsibility."

Another answer was, “While the internal control function is in charge of identifying all applicable policies, HR is in charge of looking into each case and ensuring fair treatment for everyone involved, as well as defining corrective measures or consequences for them.”

Motivation, budget and impact

In addition to identifying what ethical practices organizations have adopted, it is important to know what reasons have motivated organizations to implement them. The survey revealed that the primary reason is reputation (see Table 11). The personal values of owners and managers ranked second, indicating that ethical leadership also plays a key role within organizations because it embodies a particular way of steering the company at the moral level.

Compliance with the law and the need to prevent fines or sanctions are also significant factors when considering the adoption of ethical practices. Both the company's criminal liability and the international regulations and legal requirements constitute reasons to adopt such practices. Another finding is that the personal development of employees constitutes a significant reason for adopting ethical practices.

Such a variety of motivations, combining elements relating to both values and compliance, is consistent with reported findings at the international level. A study by KPMG and RSM Erasmus University found that the primary reasons for adopting a code of ethics are ensuring compliance with legal requirements, creating a shared corporate culture, protecting/improving the company's reputation, improving staff conduct, and becoming a socially responsible company — in that order of importance (KPMG & RSM Erasmus University, 2008, p. 8).

Respondents were given the opportunity to cite reasons for implementing ethical practices other than the options provided by the interviewers. The following are six additional reasons cited by respondents:

- It is part of the work ethos, and it is designed to ensure that the company's growth is achieved in an orderly fashion, ensuring a consistent approach to ethics and values for action
- Commitment to social development
- A key element for the corporate transformation process that the company has undertaken

- Clarity and certainty that no one in the organization will be exempted if they engage in ethical misconduct; regardless of their level in the organization, there will be consequences
- Improving the workplace environment, offering clarity in defining career and life plans, ensuring transparency toward shareholders
- Our own corporate culture

Table 11. Please, indicate, on a scale from 1 (not important) to 4 (very important), to what extent the following reasons have motivated your company to develop a corporate ethics policy

Reputation	3.5
Personal values of owners or senior managers	3.4
Criminal liability by the company	3.2
Personal development of employees	3.2
International regulations	3.1
Legal requirements	3.0
Facilitating autonomous and quick decisions	2.9
Requirements by parent company	2.9
Bad experiences	2.8
Requirements by financing institutions	2.6
Participation in business or professional associations	2.6
Requirements by strategic partners	2.6
Other reasons	2.4

Source: Own elaboration.

Although implementing and monitoring ethical practices in organizations requires financial resources, most of the companies surveyed reported not having a budget allocated for such practices. The cost of such practices probably carried into the budget of the department responsible for their implementation and monitoring (see Table 12).

Table 12. What is the range of your company's annual budget that is allocated to managing and developing ethical practices? (US dollars)

There is no budget specifically allocated to ethical practices	42 %
Less than \$50,000	15 %
\$50,000 – \$100,000	19 %
More than \$100,000	24 %

Source: Own elaboration.

An ongoing debate surrounding business ethics refers to the question of whether ethics pays — i.e., whether there is a business case for ethical conduct in organizations. The subsequent question may offer some insight in this regard, as it elicited reports of certain positive effects of implementing ethics programs in business.

The positive effects of ethical practices are observed in various areas of business: relationships with suppliers, the value chain, employee motivation, product quality and even strategic partnerships. Some respondents reported additional positive impacts of adopting ethical practices. A company from the pharmaceutical sector reported increased credibility among patients, and a company from the educational services sector reported increased differentiation value compared with competitors and increased preference among clients.

The most significant positive effects include reputation which, as mentioned earlier, constitutes one of the key reasons for implementing such programs. Two additional significant impacts are associated with the compliance-based approach; one refers to a contribution to ensuring compliance with regulations and the other refers to a decrease of sensitive situations or conflicts of interest (see Table 13).

Table 13. Please, on a scale from 1 (null) to 4 (strong), indicate the level of impact achieved by the ethical practices implemented in your organization

The company's reputation has improved	3.5
The organization has become more values-oriented	3.5
Compliance with legal regulations has improved	3.4
Sensitive situations or conflicts of interest have decreased	3.3
They have helped us to better control relationships with suppliers	3.1
They have helped us to better control our value chain	3.0

(continued)

Working climate and employee motivation have improved	2.9
Product quality or service delivery have improved	2.9
Opportunities have opened up with financing institutions	2.8
Opportunities have opened up to establish strategic partnerships	2.7
Business has increased	2.5
Other	2.5

Source: Own elaboration.

Thus, the observed impact of ethical practices relates to both business factors and ethical values and regulatory compliance. Also, a majority of respondents reported that the ethical practices are consistent with what they see every day in their organizations (see Table 14).

Table 14. In your opinion, are the values that support the ethical practices consistent with the day-to-day experience in your organization?

Yes	90 %
No	10 %

Source: Own elaboration.

Monitoring and commitment

The introduction of ethics programs must be followed by measures to monitor compliance. When asked whether there are any measures taken to monitor and encourage compliance with the standards and values expressed in the adopted ethical practices, 86 % of respondents answered positively.

Those who answered affirmatively were asked to specify what such measures were. A proportion of 30 % of respondents cited internal audits, 25 % cited training programs, and 23 % reported including such considerations when conducting employee performance reviews. Also, 21 % reported conducting internal surveys for that purpose (see Table 15).

Those who reported not taking any such measures were asked whether there were any plans to do so, and 60 % answered positively.

Table 15. What actions are undertaken to monitor and promote compliance with the rules and values associated with the company's ethical practices?

Internal audits	30 %
Training	25 %
Performance assessment	23 %
Surveys	21 %

Source: Own elaboration.

Ultimately, the aim of adopting ethical practices is to improve employee performance in an organization. This requires employees to make an ethical commitment that will lead them to change their conduct. In that regard, respondents reported that the company's board members and senior managers are the ones who have most seriously demonstrated the ethical commitment that such practices are intended to encourage. Such commitment reportedly tends to decrease as one looks further down in the organization's management structure (see Table 16).

Table 16. To what extent have the various organizational levels fulfilled the ethical commitment promoted through the ethical practices? Scale: 1 (very low) – 4 (very high)

Governing Council/Board of Directors	3.7
Senior Management	3.7
Middle Management	3.1
Workforce	2.9

Source: Own elaboration.

When respondents were asked to make an overall assessment, 54 % reported having achieved the level of ethical commitment they were aiming for in their organizations. This implies that 46 % of them are still dissatisfied and consider that further measures must be taken to shape the conduct of employees in their organizations (see Table 17).

Table 17. Considering the actions that have been undertaken so far, do you believe the desired level of ethical commitment has been achieved in your organization?

Yes	54 %
No	46 %

Source: Own elaboration.

4. Discussion

The survey answers indicate that there is a significant concern about business ethics in organizations, as they suggest that ethics often helps them in decision-making (Table 3). Ethical dilemmas arise more frequently in the sales, procurement and operations departments (Table 4). It seems only logical that the constant interaction the sales and procurement departments have with other stakeholders will lead to ethical problems more frequently.

Furthermore, the greatest concern is associated with conduct at the operational levels of the organization, as there seems to be greater confidence in employees as the level of management responsibility increases in the organization (Table 5). Yet ethical misconduct among those with greater responsibility is most likely to do the most harm to organizations and to society.

As reported before, only 43 % of respondents reported having a corporate governance code (Table 6). This may be due to the perception that, as mentioned in the previous section, the board of directors typically takes ethical conduct into consideration when implementing any action, and so a corporate governance code may be considered unnecessary.

One interesting finding is that the primary reason for companies to adopt ethical practices is corporate reputation (Table 11). Major corporate ethics scandals like Enron and WorldCom have given companies a good reason to adopt practices aimed at reducing the probability of becoming the next cases of ruined reputations due to ethical misconduct.

The personal values of owners and managers ranked second in this respect, which suggests that adopting a values-based approach to ethics programs — mentioned in the introduction — plays a significant role in the motivation for implementing ethical practices. In line with this, other research studies have shown the importance of leadership's commitment to ethics as a key influence on the adoption of ethics and compliance initiatives (Weaver, 2014). This is also consistent with the Kantian ethic because according to Kant, "It is the intention behind an action rather than its consequences that make that action good" (Bowie, 2002, p. 61).

Other important reasons to have ethical practices are compliance with the law and the need to prevent fines or sanctions; all are also significant factors when considering the adoption of ethical practices. This suggests that Paine's

compliance-based approach is also significantly prevalent in Mexican organizations (Paine, 1994). A word of caution is important here, since mere compliance may be questionable ethically, as Carroll states: "Regulations require compliance on the part of business, but not all businesses comply with both the letter and the spirit of the laws, and this raises questions about their ethics as well" (Carroll, 2015, p. 91).

Lastly, a positive finding is that the personal development of employees is also an important reason for adopting ethical practices. This kind of motivation is consistent with the definition of business ethics cited in the introduction: "A guide for human excellence in business organizations." This is also important from an Aristotelian perspective, according to de Colle and Werhane: "To be effective, a corporate ethics program designed according to Aristotelian ethics should focus primarily on creating an organizational environment that supports the development of good character for managers and employees" (2008, p. 757).

The monitoring component is important to ensure effectiveness in implementing ethical practices, as it shows employees that the focus on ethics constitutes a genuine commitment by the top management (Treviño *et al.*, 1999). In this sense, a positive finding is that 86 % of respondents are taking measures to monitor and encourage compliance with ethics inside organizations.

Even though 46 % of respondents are still dissatisfied regarding the ethical commitment they were aiming for in their organizations (Table 17), such dissatisfaction may be good, as it may encourage Mexican companies to continue undertaking efforts to find innovative ways of having a positive impact on ethics for their own good and for Mexican society.

Respondents who reported not being satisfied with the ethical commitment achieved in their organizations were asked the reason for their dissatisfaction. Answers were varied, but they may be categorized into three groups. First, some referred to a healthy and well-founded need for continuous improvement when it comes to ethics. This group of answers included the following: "It is a continuous and permanent process requiring training, communication and validation," "It is an ongoing task, it never ends, especially in a company whose workforce is the size of ours, which is over 7,000" and "Our aim is to integrate ethical commitment as a factor that is inherent in people when performing daily."

Second, many answers referred to an unfulfilled task or poor performance in some way. Representative answers include: "We are still working on 'trickling' the culture down to all levels of the organization," "We need to strengthen a compliance

culture at the middle and lower management levels of the organization, especially by promoting a culture of nonretaliation against whistleblowers” and “We still have cases of ethical misconduct.” Overall, these answers suggest dissatisfaction, either because there are still some cases of unethical conduct or because the ethics culture has not been promoted enough at different levels of the organization or more profoundly in it.

Finally, some comments reported a lack of consistency between the ethical practices adopted and other interests within the organization. Only three answers expressed such a concern, but they are symptomatic of a serious problem for some organizations where ethical considerations are neglected or overridden by other business priorities. The answers are the following: “The board of directors and the leaders of the company are only seeking to present positive economic results to increase the value of its shares,” “Lately, attention has shifted toward results over anything else and at any cost, which often runs counter to the ethics talk” and “We need to see more walking the talk, removing the temptations of business deals that are profitable but ethically questionable to some extent.”

5. Conclusions

The primary aim of this study is to assess the current ethical practices of large companies in Mexico. For this purpose, we analyzed the answers to a questionnaire collected from 107 large organizations that was administered mainly to the CEOs or compliance and ethics managers in these organizations. This survey has helped fill the information gap about what companies operating in Mexico are doing about ethics, how important this is to them, what ethics programs they are adopting and why, and what they consider to be the main challenges and achievements in this respect.

The most significant findings emerging from the study may be grouped into three categories: the role of ethics in these organizations, the implementation of ethical practices, and the outcomes achieved. Looking at the role of ethics in these Mexican companies, 83 % of respondents reported that ethics has often helped them in decision-making, and 82 % reported that ethics constitutes a significant factor in formulating objectives and production goals in their management functions. Also, the sales, procurement and operations departments reportedly pose ethical problems with greater frequency. Notably, respondents also reported that ethical

aspects are strongly considered in decision-making by the board of directors and management teams, but this is less common among middle managers and employees, suggesting that the matter of greatest concern regarding ethics is conduct at the lower levels of hierarchy in the organization, although the impact of a lack of ethics is bigger at the higher levels.

One consideration about the implementation of ethical practices is that their design and definition is done by the highest operational levels of the organization — the CEO and the senior management team — while the monitoring function is more often performed by the human resources department, the ethics committee or the internal audit department. Interestingly, some respondents reported that monitoring ethics in the organization is a responsibility of all employees.

The most common ethical practices in these companies included codes of ethics and mission and vision statements, with 98 % and 92 %, respectively. The following practices were reported by 61 %–69 % of companies: formal mechanisms, for example, conflict resolution or speak-up policies, compliance policies, ethics committees or equivalent bodies, and ethics managers. Finally, notably few companies in Mexico (41 %) have ethics training programs in place.

The three major reasons for developing an ethics policy in Mexican organizations are reputation, the personal values of the owners or managers, and criminal liability. A fourth reason relates to the personal development of employees, followed by international regulations. Overall, motivations are highly varied, ranging from the practical approach to business associated with reputation to more lofty objectives related with ethics, such as human development. Interestingly, 42 % of respondents reported that in their companies no budget has been allocated for managing and developing ethical practices.

Looking at the results achieved by these organizations with the actions they have undertaken so far, 54 % reported they have achieved the level of commitment they were aiming for, while 46 % reported not being satisfied. This may provide an incentive to continue improving, experiment and find better mechanisms to improve ethical commitment in organizations. The impact of ethical practices has been observed across various areas in organizations. Respondents reported improvements in reputation, increased focus on values and compliance with regulations.

The existence of formal ethical practices in organizations is key to improving ethical performance but, as mentioned in the introduction, informal elements are important as well. Indeed, the perception that a program is oriented toward ethical aspirations

and values is often more important (Treviño *et al.*, 1999). Nonetheless, formal and informal ethics programs are complementary, and there is evidence proving the effectiveness of formal components, including the effectiveness that is positively associated with the number of components adopted (Kaptein, 2015).

In addition to the adoption of ethical practices, other elements must be considered in order to achieve greater impact on ethics in organizations. The first element to consider is the approach adopted in ethics programs, which may be values-oriented or compliance-oriented. It is desirable to strike a balance between the two approaches, as they can strengthen each other.

This is because the values-based approach provides consistency to the compliance-based approach, and the compliance-based approach reinforces the message of the values-based approach. Compliance with regulations without a values-based groundwork is perceived by employees as empty, meaningless, and seeking only to protect the top management or shareholders from potential fines or sanctions. That is why values give meaning and consistency to compliance with regulations. Conversely, ensuring compliance with regulations, following up on the implementation of compliance practices and punishing unethical conduct may similarly be perceived as consistent with the values of the organization. If an organization promotes certain values but imposes no punishment for misconduct, the strength of the message is undermined (Treviño *et al.*, 1999; Weaver, 2014; Weaver & Trevino, 1999).

It is also important to consider the risk associated with seeking to achieve compliance in an environment that is devoid of values, as the way messages are interpreted may change the conceptual frameworks held by employees in organizations. A study found that people may do the right thing in a given situation as a result of their own ethical commitment; however, when sanctions are imposed for not doing the right thing, the conceptual framework may change, and people may stop reflecting on what is ethical or not in each situation, analyzing situations based on self-interest and caring only about whether they will be sanctioned (Tenbrunsel & Messick, 1999).

The second element to consider is the importance of ethical commitment by leaders in implementing and monitoring ethics programs in organizations (Weaver, 2014). Ethical leaders display the following characteristics: they are trustworthy, they are fair, they are sensible in decision-making, they set an ethical example in the workplace, they lead their personal lives ethically, they listen to employees, they take disciplinary measures for those who violate ethical rules, they take employees'

well-being into consideration, they engage in ethical discussions with employees, they openly include ethical considerations in decision-making, and they measure success not only based on results but also on the means to achieve results (Brown, Treviño, & Harrison, 2005). It is important to keep in mind that ethical leaders are not only defined by moral interest or belief, but also by their conduct in various contexts and certain behaviors they may display, including discussing ethics with employees and talking openly about ethics.

Overall, large companies in Mexico have implemented a set of formal ethical practices with a dual purpose of ensuring compliance with regulations and shaping organizations that aspire to embody lofty moral values. Virtually all the surveyed companies have a code of ethics in place and a mission and vision statement to guide and inspire employees to preserve certain values. Furthermore, most of them have conflict resolution mechanisms, compliance policies, ethics committees and ethics managers in place.

The extent of implementation of these practices shows that large companies in Mexico are committed to ethics. Nonetheless, improving ethics in organizations is an unending task requiring sustained efforts, as was shown by the fact that 45 % of respondents reported not having achieved the desired level of ethical commitment. This study shows that many companies seem to be on the right track.

Finally, although it is relevant to remind ourselves of the importance of ethical practices, they must be accompanied by ethical leadership and genuine commitment with moral values at the highest levels of organizations. That will make it easier to achieve the organizational goal of promoting human excellence among employees and other stakeholders, contributing to the development of society.

Acknowledgements

I am grateful to Karla Culty Esquivel for excellent research assistance, as well as Ignacio Ferrero Muñoz and Juncal Cuñado Eizaguirre for their guidance and advice in developing this research. I would also like to express my gratitude to the anonymous reviewers for their valuable comments and suggestions.

References

- Aristotle (2000). *Nicomachean ethics* (R. Crisp, ed.). Cambridge University Press. <https://doi.org/10.1017/CBO9780511802058>
- Bowie, N. E. (2002). A Kantian approach to business ethics. In T. Donaldson, P. H. Werhane, & J. D. Van Zandt (Eds.), *Ethical issues in business: A philosophical approach* (7th ed., pp. 61-71). Prentice Hall.
- Brenner, S. N. (1992). Ethics programs and their dimensions. *Journal of Business Ethics*, 11 (5-6), 391-399. <https://doi.org/10.1007/BF00870551>
- Brown, M. E., Treviño, L. K., & Harrison, D. A. (2005). Ethical leadership: A social learning perspective for construct development and testing. *Organizational Behavior and Human Decision Processes*, 97 (2), 117-134. <https://doi.org/10.1016/j.obhdp.2005.03.002>
- Carroll, A. B. (2015). Corporate social responsibility: The centerpiece of competing and complementary frameworks. *Organizational Dynamics*, 44 (2), 87-96. <https://doi.org/10.1016/j.orgdyn.2015.02.002>
- Cruz, H., & Fontrodona, J. (2016). *Clima ético de las empresas en Guatemala. Resultados de la encuesta a Gerentes Generales sobre prácticas éticas formales existentes*. Guatemala, Universidad del Istmo.
- De Colle, S., & Werhane, P. H. (2008). Moral motivation across ethical theories: What Can we learn for designing corporate ethics programs? *Journal of Business Ethics*, 81 (4), 751-764. <https://doi.org/10.1007/s10551-007-9545-7>
- Fontrodona, J., & Santos, J. de los (2004). *Clima ético de la empresa española: Grado de implantación de prácticas éticas* (Vol. 538). IESE: Universidad de Navarra.
- Gustafson, A. (2013). In defense of a utilitarian business ethic. *Business and Society Review*, 118 (3), 325-360.
- Hartman, E. (2017). Aristotle's virtue ethics and virtuous business. In A. G. Sisón, G. R. Beabout, & I. Ferrero (Eds.), *Handbook of Virtue Ethics in Business and Management*, pp. 3-12. https://doi.org/10.1007/978-94-007-6510-8_109
- Ibarra Ramos, R. (2002). *Código de Ética. Cómo implantarlo en la empresa*. Editorial Trillas.
- Instituto Nacional de Estadística y Geografía, INEGI (2014). Censos Económicos 2014. Micro, pequeña, mediana y gran empresa. Estratificación de los establecimientos. In *Censos económicos 2014. Micro, pequeña, mediana y gran empresa. Estratificación de los establecimientos*.
- Kant, I. (1996). *The metaphysics of morals* (M. J. Gregor, ed.). Cambridge University Press. <https://doi.org/10.1017/CBO9780511809644>

- Kaptein, M. (2010). The ethics of organizations: A longitudinal study of the US working population. *Journal of Business Ethics*, 92 (4), 601-618. <https://doi.org/10.1007/s10551-009-0175-0>
- Kaptein, M. (2015). The effectiveness of ethics programs: The role of scope, composition, and sequence. *Journal of Business Ethics*, 132 (2), 415-431. <https://doi.org/10.1007/s10551-014-2296-3>
- KPMG (2013). *Integrity survey 2013*. kpmg.com
- KPMG (2019). *2019 CCO survey. Insights for the future of ethics & compliance*. kpmg.com
- KPMG, & RSM Erasmus University (2008). *Business codes of the global 200: Their Prevalence, content and embedding*. kpmg.com
- Majluf, N. S., & Navarrete, C. M. (2011). A two-component compliance and ethics program model: an empirical application to chilean corporations. *Journal of Business Ethics*, 100 (4), 567-579. <https://doi.org/10.1007/s10551-010-0696-6>
- Melé, D. (2009). *Business ethics in action. seeking excellence in organizations*. Palgrave Macmillan.
- Mill, J. S. (2014). *Utilitarianism*. Cambridge University Press. <https://doi.org/10.1017/CBO9781139923927>
- Newman, A., Round, H., Bhattacharya, S., & Roy, A. (2017). Ethical climates in organizations: A review and research agenda. *Business Ethics Quarterly*, 27 (4), 475-512. <https://doi.org/10.1017/beq.2017.23>
- Paine, L. S. (1994). Managing for organizational integrity. *Harvard Business Review*, March-April, 106-117.
- PricewaterhouseCoopers (2016). *PwC state of compliance study 2016. Laying a strategic foundation for strong compliance risk management*. pwc.com/us/stateofcompliance
- Singh, J. B. (2011). Changes and trends in Canadian corporate ethics programs. *Business and Society Review*, 116 (2), 257-276. <https://doi.org/10.1111/j.1467-8594.2011.00385.x>
- Tenbrunsel, A. E., & Messick, D. M. (1999). Sanctioning systems, decision frames, and cooperation. *Administrative Science Quarterly*, 44 (4), 684. <https://doi.org/10.2307/2667052>
- Tenbrunsel, A. E., Smith-Crowe, K., & Umphress, E. E. (2003). Building houses on rocks: The role of the ethical infrastructure in organizations. *Social Justice Research*, 16 (3), 285-307. <https://doi.org/10.1023/A:1025992813613>
- Treviño, L. K., Weaver, G. R., Gibson, D. G., & Toffler, B. L. (1999). Managing ethics and legal compliance: What works and what hurts. *California Management Review*, 41 (2), 131-151. <https://doi.org/10.2307/41165990>

- Weaver, G. R. (2014). Encouraging ethics in organizations: A review of some key research findings. *American Criminal Law Review*, 51, 293-316.
- Weaver, G. R., & Trevino, L. K. (1999). Compliance and values oriented ethics programs: Influences on employees' attitudes and behavior. *Business Ethics Quarterly*, 9 (2), 315. <https://doi.org/10.2307/3857477>
- Weaver, G. R., Treviño, L. K., & Cochran, P. L. (1999). Corporate ethics practices in the mid-1990's: An empirical study of the Fortune 1000. *Journal of Business Ethics*, 18 (3), 283-294. <https://doi.org/10.1023/A:1005726901050>
- Weber, J., & Wasieleski, D. M. (2013). Corporate ethics and compliance programs: A report, analysis and critique. *Journal of Business Ethics*, 112 (4), 609-626. <https://doi.org/10.1007/s10551-012-1561-6>

■ About the author

Eugenio Gómez-Alatorre is Director of the Centro de Investigación de la Mujer en la Alta Dirección (Research Center for Women in Senior Management, CIMAD) and professor of Entorno Económico (Economic Environment) at IPADE Business School. A PhD candidate in Economic and Business Administration at the University of Navarra; he has a Master's degree in Economics from El Colegio de México and a Master's degree in Government and Culture of the Organizations from the University of Navarra. He holds a BA in Economics from Universidad Panamericana.

egomez@ipade.mx