MASTER THESIS

THE APPLICATION FOR **BUSINESS CODES** TO MITIGATE **COMPLIANCE RISK**

"An enquiry on how the ***content*** *and the* ***design*** *of business codes of financial institutions allow for guiding organizational behavior such that it responds to WFT financial regulation"*

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– FOREWORD –

In front of you lies the master thesis of Peter Laurens van Keulen. It is the result of a process that lasted for quite an amount of time. It is furthermore a product that evolved from being particularly necessary to achieving the master's degree towards a piece of sincere dedication, resulting into something that I consider as one of the greater achievements, which I reached so far. This product could not be completed without the perspective and patience that are both required in the course of such a process.

Perspective – being able to maintain motivated and enthusiastic is merely possible unless you have the perspective of knowing that the all the efforts will lead to the ends desired. Arriving there requires setting out a specific route and work along it subsequently. This route is tested many times during the writing process. Setting out the wrong route, led initially to returning to square one and once I chose the right route, my orientation ability became occasionally tested. However, in the course of the process, I realized that once you have a clear focus on the perspective to pursue, you are always able to regain the right direction.

Patience – being able to deliver a satisfying product and to transcend occasionally is merely possible once you are patient. Though, patience is encountered a complicating factor, putting you to the test, once in a while. It may turn into personal neglect once you wander from the priorities you actually have. In turn, you may project your own negligence on the outside world, becoming suspicious that others are not taking you seriously regarding your thesis. But in the long end, you have only yourself to make sure that patience is paying off and to get rid of suspicious, insecure thoughts. I am fortunate about eventually being able to deal with this.

During the task to complete the master thesis it appeared to me that confidence is necessary for gaining perspective and for knowing that your patience will lead to the best possible. I would like to thank the following persons for giving me the confidence I needed in order to be able to continue. Firstly, I thank Ted Welten for his patience and for helping me finding the structure that was need for gaining perspective. I thank him particularly for his confidence and fortitude for supervising me, even at times when he recovered from surgery. I thank Lotte, particularly for giving me the strength to continue and to function as a sounding board that I needed, once in a while. Lastly, I thank my parents and family members for never losing their patience and confidence in that I would succeed to complete the master thesis.

Peter Laurens van Keulen
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THESIS SUMMARY

Financial firms that provide services in the NL financial sector are exposed to significant risk that stems from the inability of meeting imposed-upon legal requirements. It is evident that firms intend to mitigate this compliance risk since failure may lead to the imposition of fines. Besides, they likely face reputation damage from occurred infringements, which may have a severe impact on their future profitability. In order to keep up with the law, firms should have the notion of adhering to both, the letter and the spirit of the law. Meeting all administrative legal prescriptions responds to the former. While such efforts may unduly tend to overshadow complying with the law its spirit, financial firms need as well develop a clear focus on the ethics to pursue in order to adequately respond to the underlying purposes of the law. Such perspective and the associated guidance are possibly shaped in a company code of conduct, i.e. a business code. This thesis examines the latter application for mitigating compliance risk.

The background for this examination is formed by WFT financial regulation: a considerable source for compliance risk to which financial firms that operate in the NL financial sector are exposed. As any other law, WFT provokes a certain ethics from regulated firms and the latter is deemed to adhere this behavior. WFT is furthermore principle-based designed. This may have implications for the manner to which financial firms guide behavior to a desired state. Perspectives thereto are reflected in the control orientation theory. The merger of the ethics and control orientation into the business code as vehicle to compliance risk mitigation, offers the following central research question: "What **ethical behavior** and **control orientation** should be reflected in business codes of financial service providers in order to effectively mitigate the compliance risk stemming from WFT and its principle-based regulatory design?"

A theoretical response to the *ethical behavior* that *WFT* provokes from financial firms departs from the rationale of financial regulation, which is preserving an *efficient financial secto*r. It thereto protects consumers of financial services from detrimental actions of financial firms by means of imposing conduct of business rules on the latter. Reason for protection stems from *information asymmetry* that need be adequately bridged for preserving efficiency. This occurs as long as consumers are given *efficient information* on which they can base their purchases. But such interaction in the financial sector will only occur once consumers are positive about the current and future behavior of financial firms. This touches at the core of the behavior that is underlying financial regulation: *trustworthiness*. Using business ethics literature to unfold the meaning of this concept, demonstrate that is indicated in the behavioral traits of *openness*, *integrity*, *benevolence*, and *competence*. In all, financial firms should raise awareness to these aspects of behavior in the businesses to ensure that the ethics of regulation are adhered to.

If firms guide steer their businesses towards the above ethics and they use the *business code* as means to an end, this needs be reflected in the messages that these specimens contain. The retrieve of these messages requires a structure in which they can be systematically adopted. *Business code content analysis* offers means for such structures. This led to the interpretation of the ethical behavior in codes on the corporate integrity model. Hereto, codes should raise *trustworthiness* as *corporate values*, obtain *costumers responsibilities* for the provision of *adequate services* and *trustworthiness indicators* need appear as *costumer principles*.

A *principle-based design* is paramount in WFT. Such system consists in the application of broad-standards, a focus on outcomes it intends for those whom regulation is designed and in shifting regulatory responsibilities to regulated firms. On the premise of coherence of the intentions of this principle-based design with the response of firms on behavioral guidance is considered that *ethical compliance* offers appropriate response to achieve desirable conduct. This encourages responsible behavior that is much as possible achieved in guiding principles. Interpreting ethical compliance in *control orientation theory* demonstrates that a *values-based system* is equivalent in contrast to *compliance-based systems*. A reflection on *effective code design* enables defining *design parameters* that discerns the control orientation from the code its content. Hereto, key parameters are *subject matter, focus*, *level of detail, pronoun* and *tone*.

The business code application for compliance risk mitigation is grounded on the consistency of theoretical interpretations to the ethics and control orientation with the empirical data that is retrieved from code content. This implies putting business code content analysis to research. Hereto, an amount of twenty-four business codes is gathered. An empirical basis is drawn on banks, insurers, pension providers and investment firms. The retrieval of data for inferences is based on modifying initial code data into standardized items that are comparable across codes. Again, the corporate integrity model served as primary instruction for collecting data. The inferential research is discerned in a theory-empirics affirmation on the ethical behavior and control orientation. The resulted findings unfolded the following: considerable proportions of codes highlight a theoretically proportionate presence on some of the pronounced levels for ethical behavior and control orientation. Though, a merger of all observations reveals a modest amount of codes that are completely affirmative and hence, considered an effective application for compliance risk mitigation. **2 codes** appear **fully affirmative**, **5 codes** offer **neither proof** and finally, **17 codes** are **partly affirmative**. This latter share is interpreted as intermediate.

The large share of found intermediate codes is explained in the observed tendency of adding too great diversity, in terms of subject matter and control orientation. This diversity in codes ceases them to give consistent response to a specific application as compliance risk mitigation.

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Chapter 1 – Introduction

§ 1.1. Introduction

This first chapter offers the acquaintance with the thesis subject and the empirical research. In order to provide sufficient guidance to research, it is deemed necessary to arrive at a research relationship first. This is referred to as the linkage of phenomena between which it is possible to define a problem. The following section will gradually develop towards this relationship. The first exercise in this process entails building the research proposition, which is defined as follows: "*business codes are an application for compliance risk mitigation".* The reasoning that is associated with this proposition will reveal the context of research, which is formed by financial service providers that offer services in the NL financial sector.

The research proposition draws the background against which this thesis is written and also, it offers the research motive. Still, a relationship should be defined that offer further guidance for composing a theory that can be empirically verified thereafter. Treatment of the research proposition will therefore flow into defining this research relationship. This is unfolded in a two-step procedure, of which the initial step will deliver the simplified relationship. This is grounded o the following reasoning: *"If one is interested in whether business codes serve as application for compliance risk mitigation, one should actually consider the impact that these codes have on mitigating this risk".* From this reasoning a simplified research relationship will be defined with *"business code"* and *"compliance risk"* as the variables of interest. Still, this linkage lacks sufficient delineation. This simplified relationship is therefore decomposed into its specified counterpart. On the addition of *WFT financial regulation*", "*Principle-based regulation*" and "*Control orientation*" as variables, a research relationship will arise on which a theory can be built and which can be empirically verified.

The meaning of the specified research relationship is reflected in the central research question and hence, this is presented in section 1.3. This research question is addressed by means of sub-questions that offer the structure for composing a theory. Particular attention is therefore drawn to the logic and the order in which the sub-questions are posed The expectations on what theory and empirical findings will deliver are described in section 1.4. A brief summary on the research method, the accompanying research design and the approach for gathering data are offered in section 1.5. This introductory chapter ends with the structure of the thesis. This will shed light on the structure of the theory and particularly, on the manner in which the sub-questions are interpreted into this structure accordingly. Nevertheless, the aims of the remainder thesis sections are as well pointed in this final introduction section.

§ 1.2. The research relationship

'Many financial institutions are hoping for a regulatory pause'. This sentence offers the start of a report of PWC (2009) on the compliance function of financial institutions (FIs hereafter) in Europe. It conducted a survey-study among seventy-six FIs that operate in 16 European countries. Thomson Reuters (2011) furthermore surveyed 337 compliance practitioners from financial services. It concluded that '*more than one-third of compliance teams spend more than one whole day every week tracking and analyzing regulatory developments*'. Idem, Ernst & Young (2010) states that increased government oversight of the financial sector is coming. *'It is not a question of if, but of when and to what degree'*.

In the aftermath of the financial crisis, regulatory and supervisory authorities are encouraged to restore financial stability and the trustworthiness of the sector of financial services. PWC (2009) is stating that the financial crisis has led to some 'radical rethinking' of the approach to *regulation* and *supervision*. With 'regulation' is meant: "the set of rules and standards that govern institutions" (The de Larosiere Group, 2009: 13) and 'supervision' means "the process designed to oversee institutions to ensure that rules and standards are properly applied" (Ibid). There is a general consensus among regulators and politicians alike, that oversight needs to be improved on corporate governance and risk, including *compliance risk* (PWC, 2009). The mentioning of *compliance risk* offers the very first sign in the research proposition that is depicted later in this section. The focus hereto is limited to the compliance risk that is exposed to FIs who offer financial services in the NL financial sector.

Increased exposure to compliance risk

As authorities are encouraged to restore trustworthiness in the financial sector, they induce FIs to bring about the necessary changes. The latter therefore faces rapid regulatory renewal. This makes the regulatory environment increasingly complex. Moreover, the authorities have strengthened supervisory activities putting FIs under fierce scrutiny. Finally, the financial penalties for being non-compliant are increasingly stringent (Louwes & Wortel, 2009). From this changing 'authoritarian attitude' results that FIs are increasingly exposed to considerable compliance risk. For now, compliance risk is defined as the current or the prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules and regulations, prescribed practices, internal policies and procedures or ethical standards (bankers-online.com). This risk can result in diminished reputation and limited business opportunities (Ibid). Though, the definitions will be altered in the course of this section.

The increased exposure to compliance risk challenges FIs to identify, assess and to mitigate this risk accordingly. Therefore, FIs have created *compliance functions* into their business.

The compliance function holds a considerably important position in financial firms. "(It) (clearly) provides a focal point for compliance within an organization and will usually be the principal point of contact between the regulator and the firm" (Newton, 1998: 76). Compliance maintains dialogue with the authorities for monitoring upcoming legislation. It assesses the impact of new rules on their business and supports the latter with means to mitigate compliance risk. Though, this function is not only important in order to ensure that risks are reasonably assured. Due to the financial crisis, consumers of financial services are more cautious. They therefore request FIs to disclose compliance program information. This implies that a good compliance program can actually contribute to retain and attract assets: it thereby may yield a *competitive advantage* for FIs (Ernst & Young, 2010). In sum, financial service providers are faced with increased compliance risks and they put increasing efforts into mitigating them accordingly. In sum, the exposure to compliance risk offers the initial motive for the research question, raised in section 1.3. This contemporary issue is considered a relevant trigger for a theoretical enquiry and an empirical research thereafter.

Compliance is an ethical concern

As FIs are exposed to increased compliance risk, they are prompted to develop compliance programs, which consists of compliance training, advising on regulatory matters and for instance compliance monitoring. In addition, much attention to date is devoted to the establishment of compliance risk management programs, in order to become more focused on the activities in the organization where compliance is needed most (Newton, 1998). However, it is not the rules, nor the legal requirements that should be addressed solely. Compliance does not come down to meeting a minimum requirement of rules. Instead of 'ticking boxes' and obeying the law by the letter, need FIs be keen on addressing the objectives underlying financial regulation. This is perceived as acting in accordance with the law its spirit.

Only paying attention to compliance procedures and controls does not guard against any regulatory sanction (Newton, 1998). Rather, the establishment of a *corporate ethical culture* is needed. Drawing upon on Paine (1994), Michaelson (2006) states that ethics is more than law abidance: "compliance with laws and regulations is a necessary but insufficient condition for ethical business practice" (Ibid: 241). So, responsible or ethical conduct cannot be achieved solely by imposing from outside what is required but must also appeal to what is desired (Ibid). In the research that follows in this thesis, 'compliance risk' will not be coupled with adherence to legal, administrative procedures. Rather, this thesis focuses on compliance risk in the sense that it is concerned with the establishment of a certain ethical behavior that allows FIs to not only live up with the form of a rule but also with what it actually intends.

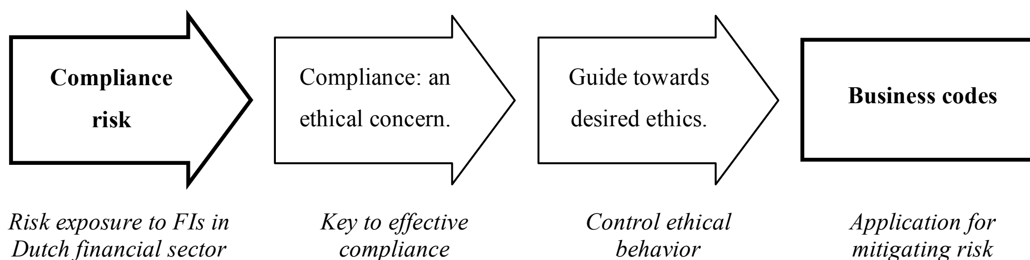
Business codes for mitigating compliance risk

In order to mitigate compliance risk effectively, it is necessary for FIs to guide employees and managers towards the desired ethics. Business codes may be considered as relevant means to this end. The use of business codes is a frequently studied subject within the field of business ethics and in many management journals. Empirical studies show that many firms have adopted business codes. Kaptein (2004) states that fifty-eight percent of the one hundred world's largest multinational firms have a business code. Cowton & Thompson (2000) considers the business code as a conspicuous feature of modern business organizations. Literature shows that there are different names and purposes for business codes, partly because of different conceptual views on the matter (Kaptein & Schwartz, 2008). The latter scholars nonetheless defined 'business code' such that it can be applied sufficiently into this introduction. Kaptein & Schwartz (2008:13) defines this means as: "a distinct and formal document containing a set of prescriptions developed by and for the company to guide present and future behavior on multiple issues of at least its managers and employees toward one another, the company, external stakeholders and/or society in general".

As business codes should guide behavior of management and employees in organizations, it can be interpreted as a management control system (MCS hereafter). According to Cassell et al. (1999: 1880) the business code might be seen as "an attempt to purposefully influence or control the ethical dimensions of members' organizational behavior". This intended purpose of business codes is closely linked to the definition of Merchant & van der Stede (2007: 5) on MCS. It refers to it as "the systems and devices management uses to ensure that the behavior and decisions of their employees are consistent with the organization's objectives and strategies". Considering the above-stated perspectives it can be concluded that a business code has the intended purpose to serve as MCS. Whether it is effective in doing so depends on the extent to which it influences the behavior of employees. Scholars have provided mixed results to date on the effectiveness of business codes. Based on an examination of 79 empirical studies on code effectiveness, Kaptein & Schwartz (2008) established that 35% found that they are effective, 16% found a weak relationship, 33% found that there was no significant relationship and 14% presented mixed results. Whether codes *really* provide better cultures can only be ascertained by measuring behavioral changes. However, one must also ascertain that in order to change behavior some guidance is needed. This means that a business code is *a priori* a MCS. This premise is endorsed in Merchant & van der Stede (2007). It states specifically that business codes have the ability to shape organizational behavior. It is a system for exercising c*ultural control*.

In summary, compliance risk can only be mitigated effectively if the adhered organizational culture supports the underpinnings of financial regulation. Against the backdrop of increasing compliance risk, there is strong need for FIs to continuously guide employees towards the behavior that is consistent with what authorities intend and what is considered ethical in general. Business codes have the intended purpose to serve this end. As the use of business codes is common practice, it is very likely that FIs, operating in the NL financial sector use these vehicles in general and in particular for mitigating compliance risk. Examining such specific application for business codes is argued a scholarly novelty. This consideration offers the motive for further enquiry: for building theory that allows it to be empirically verified. The remainder of this thesis will therefore focus on business codes of FIs operating in the NL financial sector. Business codes will be examined on *'the application for compliance risk mitigation'*. This perspective forms the proposition on which the research relationship will be build. The research relationship itself is elaborated in the remainder of this section.

Exhibit (1) research proposition –the research proposition is depicted below. FIs are exposed to compliance risk (arrow 1). Important to compliance is emphasizing the objectives underlying the regulation of financial services in addition to solely meeting the legal requirements that directly stem from the law, or 'the letter of the law' (arrow 2). Organizational members need guidance towards the desired ethical behavior (arrow 3). Business codes, then, are means to achieve this end. In essence, business codes can contribute to mitigate compliance risk..

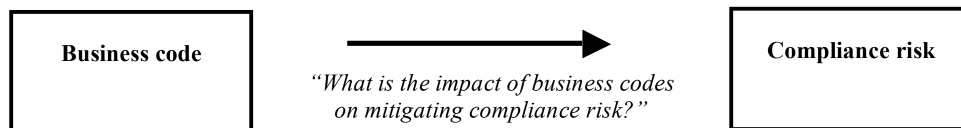


Research relationship: simplified

The research proposition is outlined in the previous part of this section. This contained a theoretical explanation on the use of business codes to function as MCS as it has the ability to guide organizational members towards the desired ethical behavior. Eventually, it argued that business codes might serve as an application for compliance risk mitigation. In order to verify this proposition empirically, one needs a research relationship: a linkage of variables between which it is possible to define a problem that is expressed in a research question accordingly. Currently, one has a notion of the context of the research relationship. Though, the relevant variables for determining this relationship are not provided fully yet. The remainder of this section therefore focuses on selecting and describing variables that are needed for composing a concise research relationship, which is accompanied with a research question eventually.

The examination on whether FIs apply business codes for compliance risk mitigation is seen as a scholarly novelty. The fundamental purpose of this thesis is therefore to determine whether FIs in the NL financial sector use business codes for this cause. To determine this, one needs to analyze the content of business codes. Ultimately, this content analysis should enable to deduce whether FIs in the NL financial sector intend to mitigate compliance risk using business codes. This implies a consideration on the impact that business codes might have on mitigating compliance risk. A simplified research relationship is then unfolded into a linkage that consists of the variables *'business code'* and *'compliance risk'*.

Exhibit (2) simplified research relationship - the empirical research, conducted in this thesis determines whether FIs in the NL financial sector use business codes as application for mitigating compliance risk. Therefore, the content of business codes will be examined on the presence of compliance issues. This implies considering the impact of business codes on mitigating compliance risk. As a result, a linkage of variables is determined wherein 'business code' and 'compliance risk' are considered relevant.



Research relationship: specified

The outline for the research relationship and the general idea with regard to the empirical research is summarized in the illustration above. Both variables are still not defined properly for establishing an empirically testable research relationship. This subsection therefore continues with a consideration upon 'compliance risk exposure' to come to the relationship desired. One should understand that FIs face compliance risk as long as legal requirements are imposed on them. The relevant source for compliance risk is thus formed by financial regulation. Then, the *exposure* to compliance risk occurs when members of the financial firm are unable or unwilling to cope with behavior that should be upheld into their business in order to treat the regulation adequately. The business code, in turn, may try to influence and guide the behavior of its organizational members, so that they behave in the expected way and FIs have reasonable assurance that they are not exposed to unwanted compliance risk.

The reasoning that is contained in the paragraph above can be used to reach a specified research relationship. By now, one understands that compliance risk flows from the legal requirements that should be upheld in the businesses of FIs. It is therefore logical to define the financial regulation on which can be built further. The idea behind this is to unfold from the financial regulation the behavior that is essential in order to adequately cope with the law.

Indeed, if FIs succeed to synchronize the behavior of their organizational members with what the law intends, then they mitigate compliance risk accordingly. So, if the relevant behavioral requirements are present in business codes of FIs, one might say that these means intend to mitigate compliance risk. Hence, selecting the type of financial regulation gives the first direction for a specified research relationship. *Then,* the design of the selected financial regulation may offer another relevant clue to come to a more concise research relationship. Financial regulation itself may trigger relevant behavior. The design of the regulation, in turn, may explain how FIs should apply it in their businesses. In particular, regarding the method they use to guide organizational members to the behavior that flows from the regulation. Taking down the existence of this relationship is relevant: if one exists and FIs do not succeed to provide the relevant response to the design of the financial regulation, then they will not succeed to mitigate compliance risk effectively. *Finally* and the third direction to a specified research relationship is closely linked with the former and offers a theoretical consideration on different manners for behavioral guidance. Presuming that the design of the regulation will trigger a certain approach to steer towards the relevant behavior, then one needs to have a theoretical directive that can be applied to define the applicable manner for guiding behavior in response to the design of financial regulation. The relevant interpretation on each of these 'guidelines' to the specified research relationship is provided in what will follow:

Act of financial supervision (WFT) – This thesis addresses WFT as the relevant source of compliance risk. WFT bundles the financial regulation, which is imposed on FIs who provide financial services in the NL financial sector. This act is introduced during 2007 and replaced eight different stand-alone laws into one umbrella law. The WFT is aimed at improving the regulation on financial markets to become more effective, market-driven and transparent. Practical evidence of WFT as source for compliance risk is adopted in Merkens & Kilsdonk (2011). Here, it concerns a yearbook on compliance practices of FIs, operating in the NL financial sector. It provides results of survey research that is conducted amongst delegated executives and compliance officers and it states (among others) that it required a lot of efforts to cope with the requirements of WFT. The findings of Merkens & Kilsdonk (2011) and others provide sufficient reasons to use WFT as the applicable source of compliance risk.

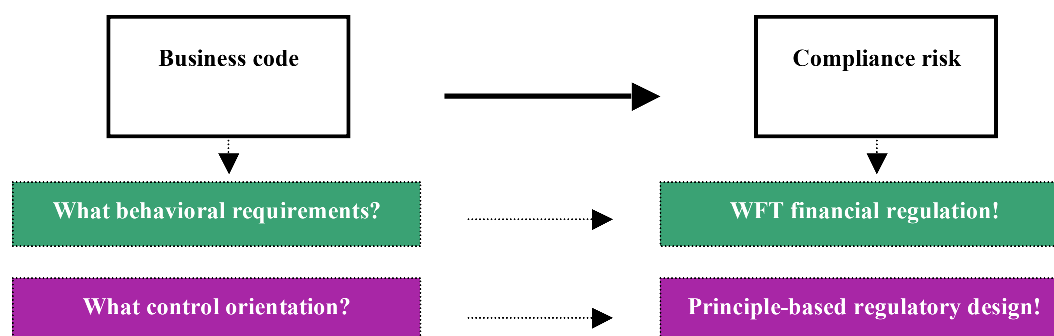
Principle-based regulation – The enactment of WFT introduced a principle-based regulatory design to the NL financial sector. From theory can be inferred that there are two opposite systems in the regulation of business or industries. These are *rule-based-* and *principle-based regulation*. Distinctions in this regard are rather prominent within the regulatory domains of corporate governance and accountancy standards. It appeals to the regulation of financial services as well, though less manifested. Rule-based regulation aims to enforce behavior with

legal requirements, while its principle-based counterpart emphasizes principles or standards. This distinction is best illustrated with the following example obtained in Ford (2008: 6): "a rule will say: 'do not drive faster than 55mph', whereas a principle will say 'do not drive faster than is reasonable and prudent in all circumstances' ". This metaphor already provides some evidence that FIs need to consider their method for guiding behavior. This evidence is even reinforced in Jagt (2008) who remarks that the principle-based approach, introduced in WFT, entails a larger emphasis on integrity and controlled business operations, instead of prescribing each legal requirement one should meet.

Control-orientation – It has been hinted above that the principle-based design of WFT might impact FIs as to the way they deal with the regulation in their businesses. Meaning that if FIs intend to provide a proper response to WFT, they may want to consider their method for guiding the behavior of its members towards the desired ends. A concept that allows defining the method for guiding organizational behavior, coherent to principle-based regulation may be found in the theory on *control orientation*. This theory is initially cited in Weaver et al. (1999b) as it offers a study on determinants of (i) the scope and (ii) the control orientation in corporate ethics- and compliance programs. Here, it refers to control orientation as follows: "control systems are (also) characterized by their control orientation – that is, the manner in which they standardize behavior" (Ibid: 42). It subsequently expresses two dichotomous manners for standardizing behavior. These are referred to as compliance- and values-based systems. It is considered likely that one of these systems (or a combination of the two) will provide proper substance to the implications of principle-based regulation for FIs.

To summarize, three additional guidelines further refined the research relationship, which is depicted below. The impact of business codes on mitigating compliance risk will be examined empirically against the background of the financial regulation that is adopted in WFT. The latter has clearly chosen for a principle-based design. It is considered likely that this impacts the manner to which organizational behavior is ideally guided. Two different perspectives on guiding legal and ethical behavior of organizational members are inserted in the theory on control orientation. Behavior can be standardized either compliance- or values-based. It is assumed 'possible' to disentangle the behavior that WFT intends from FIs from the regulation itself and adjacent literature. Once this behavior is defined, then its presence will be measured in business codes. It is moreover assumed 'possible' to evidence the control orientation from the regulatory design of WFT and to define how this is reflected in business codes. Once the control orientation is defined, it will be associated with the orientation that is measured in business codes. In all, the above reasoning allows defining a specified relationship that can be further examined according to two sub-research relationships. These are shown below:

Exhibit (3) specified research relationship: two sub-relationships - the specified research relationship is depicted below. Four additional boxes are added below the boxes that present the initial research relationship. The information, contained in the lower boxes, provides the necessary guidance for examining empirically the application for business codes to mitigate compliance risk. The ethical behavior that is essential in order to live up to the purposes of financial regulation will be evidenced from WFT. Then, the correct method for guiding organizational members towards this essential behavior will be evidenced from the regulatory design of WFT, which is principle-based. The theory on control orientation will be applied to define this method.



This section will close with a brief consideration on the above-stated relationship. By now, it should be clear that the empirical research will deduce from the content of business codes whether FIs intend to mitigate compliance risk. Though, FIs may apply multiple means in order to do this. Hence, if there is lacking evidence on the use of business code for this cause, this does not mean that FIs commit no effort at all to mitigate compliance risk. In fact, FIs may apply means as ethics- and compliance training and compliance monitoring, in order to aim for the similar purpose. Though, it is considered likely that FIs apply business codes for mitigating compliance risk. In fact, scholars perceive such devices as prominent elements of compliance programs (see: Schwartz, 2004). Therefore, the business code is perceived as a priori means for guiding ethical behavior and it is considered relevant to consider their impact on compliance risk mitigation.

Lastly, the empirical research concerns an examination on the application for business codes to mitigate compliance risk. One is able to test this relationship unless the relevant ethical behavior is defined upfront and also, the manner to guide towards this essential behavior. The theory will provide the necessary direction hereto. The essential behavior and the manner to which this should be standardized is evidenced from WFT and principle-based regulation, respectively. These two variables are nonetheless causes for compliance risk to which FIs are exposed. This means that once the empirical research confirms that business codes impact compliance risk, their code content may be influenced by the aforementioned causes of compliance risk. To eliminate this confusion, is once more emphasized here that the research concerns examining the application of business codes to mitigate compliance risk. In addition, testing the inverse relationship extends beyond the scope of research.

§ 1.3. Research question & sub questions

The providers of financial services in the NL financial sector are exposed to increased compliance risk. As a result, these FIs are prompted to develop compliance programs in order to mitigate compliance risk accordingly. Since compliance is perceived as an ethical concern, these programs should urge organizational members of FIs to conduct themselves ethically. The corporate ethical code, or the business code is considered a common, but also a critical means to guide members of an organization towards the desired behavior. Though, the use of this device within this specific context has never been empirically tested to date. The research that will be conducted therefore examines the impact of business codes on mitigating compliance risk. Narrowing down this research setting has yielded into two sub relationships that underlie the thesis its central research question. This question is adopted below.

RQ	*"What* ***ethical behavior*** *and* ***control orientation*** *should be reflected in business codes of financial service providers in order to effectively mitigate the compliance risk stemming from WFT and its principle-based regulatory design?"*

The below-stated sub-questions should lead up to answering the central research question.

SQ1	*"What is the rationale of financial regulation and also, according to WFT?"*
SQ2	*"What concepts of ethical behavior are underpinning financial regulation in general and, if possible, to WFT specifically?*
SQ3	*"What is principle-based financial regulation in general and according to WFT?"*
SQ4	*"What are the implications of principle-based financial regulation regarding the manner to which behavioral should be guided?"*
SQ5	*"Which control orientations can be classified and which one is suitable for guiding and standardizing ethical behavior with regard to principle-based regulation?"*
SQ6	*"What structure is possibly obtained from prior research for capturing business code content and how is the essential behavior (as in SQ2) interpreted into the structure?"*
SQ7	*"What design parameters and –values are obtained from prior research that allow deducing the control orientation from business codes?"*

§ 1.4. Purpose of study

What is delivered as this thesis reaches its completion? This thesis examines the application of business codes for mitigating compliance risk to which FIs that operate in the NL financial sector are exposed. The so-called impact of business codes on mitigating compliance risk is assessed according to an analysis of the content and the design of the business codes gathered. The documents will be compared with one another in order to deduce the ethical behavior that is underpinning the WFT financial regulation. The research as well aims to deduce the control orientation from business codes in order to verify whether this orientation is consistent with that which offers adequate response to the principle-based regulatory design of WFT. The extent to which FIs apply their business codes for mitigating compliance risk thus depends on the presence of the presumed essential ethical behavior as well and on the consistency of the control orientation measured with that which is argued effective in response the regulatory design of WFT.

Prior to come to empirical inferences, however, this thesis will yield several theoretical aims. The theory proposes a rather specific and foremost novel network of interrelated theoretical perspectives. Defining the ethical behavior underpinning the WFT regulation is substantiated on *financial intermediation theory* and *business ethics* and verified according to references from *the law* itself. Theory then continues with reflecting on the implications of the *principle-based financial regulation* for the manner to which FIs should guide the ethical behavior within their businesses. This is related to the scholarly discipline of *management control* to define the *control orientation* that is consistent with the WFT regulatory design. The defined essential ethical behavior and the control orientation are then brought into perspective with the *business code*, as it is the vehicle argued to mitigate compliance risk. Ultimately, this yields a theoretical response as to the content and also, the design that should be reflected in business codes to effectively mitigate the compliance risk considered.

Theory and empirics both contribute to the thesis its in-depth purpose. The thesis ultimately captures whether FIs in the NL financial sector consider their business code as application for compliance risk mitigation. Examining business codes addresses whether there is a shared consciousness among FIs to guide the business towards the ethical behavior underpinning the WFT financial regulation and also whether this is approached adequately. Deducing the essential behavior and the control orientation from business codes will likely shed light on the mindset of these firms regarding how they respond the imposed financial regulation. Hence, providing them a mirror as to how they treat compliance and how they ought to do this according to the developed theory. In this capacity, the thesis findings may contribute to further developing the compliance practices in the NL financial sector.

§ 1.5. Empirical research

Empirical research implies that knowledge will be gained through observing empirics or, to put it differently, the real environment. Business codes cover the information on which the inferences are drawn. The code its application for compliance risk mitigation is empirically verified on basis of examining the content of these documents. The total amount of business codes will be gathered from FIs that provide services in the NL financial sector. Examining the messages that codes convey means applying *content analysis* to research. This method is defined in Babbie (2007) as the study of recorded human communications. Stone et al. (1966) is somewhat more explicit on the actual discipline. Here, it is considered a method for making empirical inferences by systematically and objectively identifying specified characteristics within a text. Content analysis is argued a mature scientific method (in: Krippendorff (1980). It is likewise applied in many empirical contexts. For instance in accounting research: "to reveal useful insights in accounting practices" (Steenkamp & Northcott, 2007: 12). There is in particular an ample amount of business code studies with content as the research method of interest. The knowledge that is needed for conducting content analysis on a valid and reliable manner will therefore be derived from the latter research base.

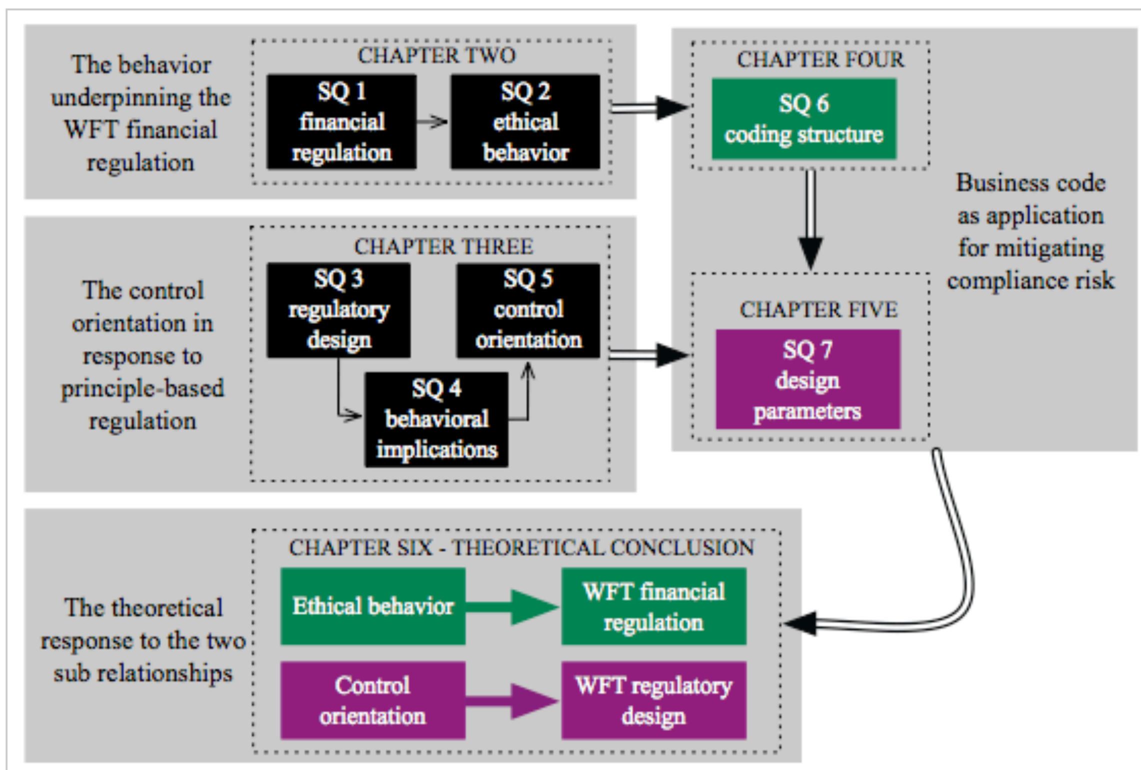
The application for business codes for mitigating compliance risk is empirically verified by means of an examination of codes gathered. This examination is divided into four processes. The first is referred to as the data collection process and entails modifying the initial content into standardized code items. The standardized items allow for comparison across codes. This enables comprehending the observed data, which is deemed the second process. Testing the proportionality of the observed code application with its theoretical interpretation is carried out according to two analyses of which each pertains to one of the sub research relationship. The third process deduces the ethical behavior of interest from code items and the fourth task includes determining the control orientation of the codes. The findings on the ethical behavior and control orientation are eventually combined, which allows making visible those codes that are considered an effective application for compliance risk mitigation compared to the total number of codes considered. The latter offers the prelude to the conclusion.

It is considered earlier that the business code is an a priori means to mitigate compliance risk. Measuring whether business codes really improve ethical behavior extends therefore beyond the scope of the research. In contrast, the empirical research proposes measuring the potential effectiveness of the codes considered, without intervening into the social environment in which they have their intended purpose. Content analysis may in this capacity be perceived as *unobtrusive research method* (see: Webb et al. (1966) and also: Krippendorff, 1980).

§1.6. Thesis structure

The final section of this introduction covers the structure of the thesis remainder. A common thread for the theory, the research design and the empirical research eventually, is formed by the sub research relationships that together comprise the specified relationship as depicted in exhibit three. These sub relationship central the essential behavior and the control orientation and hence, enable providing the response to the central research question. These relationships are shaded in green and purple, respectively. As both relationships are perceived as the thesis common thread, they likewise appear throughout the different sections in order to highlight their presence. This section takes an advance on the theory and considers how it develops to providing theoretical consideration to both sub relationships. The structure of theory is shown in the flowchart below.

Exhibit (4) the structure of the theory - the structure for the theoretical section is depicted in the flowchart. The theory is basically built up from different layers. The first layer comprises the grey sections of which each raises a theoretical perspective. The left section centrals the behavior in response to the financial regulation, the middle centrals the control orientation in response to principle-based regulation, the right section relates one another to business codes and finally, the theoretical response to both sub relationships is offered in the theoretical conclusion (lower section). The second layer then consists in the chapters that address a certain part of theory and it shows how the chapters are connected. The final layer entails the sub questions that are treated in each of the chapters and their interrelatedness. From the colors applied in the flowchart can be inferred that the actual research relationship is initially treated in the right section, spread across chapter four and chapter five. The actual response to the sub relationships is once more concisely explained in the theoretical conclusion (chapter six).



Theory – the flowchart shows that the theory addresses the total amount sub question raised. Consideration to these questions is provided in four individual chapters, which together touch upon three main theoretical perspectives. Addressing all research questions eventually allows providing response the sub research relationships. The first theoretical perspective concerns the ethical behavior underpinning the WFT financial regulation. The purpose of the chapter is to define the ethical behavior that offers adequate response to the regulation considered and hence, allows mitigating compliance risk. The next chapter then elaborates on principle-based financial regulation to ascertain the implications of this regulatory design for behavioral guidance within the businesses of financial service providers. The chapter then continues with putting the implications for guiding organizational behavior into the theoretical perspective of management control. This ultimately allows defining the control orientation that is consistent with the regulatory design of WFT. Hence, this orientation enables mitigating compliance risk effectively. So far, theory defined the essential behavior and the control orientation. Hence, it is justified relating both concepts to the vehicle that enables compliance risk mitigation. The linkage of the aforementioned concepts with the business code is spread over chapter four and five, respectively. The former builds to a structure on which the content of business codes is possibly accommodated and interprets the essential behavior into the structure accordingly. The latter defines design parameters and –values that allow deducing the control orientation from the codes considered. Completing these two chapters allows offering adequate response to the sub research relationships. This is eventually included in the theoretical conclusion.

The research method – chapter seven bridges the gap between theory and empirical research. This boils down to providing accountability for all the decisions that pertain to and shape the research method. This addresses more specifically (i) the method for gathering business codes, (ii) the research design and (iii) the application of scales for inferential purposes.

Empirical findings – the empirical research is conducted consistent with the research design and the resulting findings are addressed accordingly. The chapter describes and discusses the content, which is comprehended from the empirical basis at first. Then, attention is offered as to whether the ethical behavior is reflected and its consistency with theory. This follows with scrutinizing control orientation of codes. The chapter closes with a joint analysis on the findings of the latter two research processes offering sufficient reasoning for the conclusion.

Conclusion, limitations and recommendations – a reflection upon relevant empirical findings is concisely reflected in the conclusion by means answering the central research question. The limitations, which yet characterize the conclusion, are explained thereafter. Recommendations for future research are lastly offered.

Chapter 2 – Financial regulation & Underpinning ethics

§ 2.1. Introduction

The thesis' theory section starts with a consideration upon financial regulation and the intended ethical behavior of servants in the financial services industry. It follows the perspective that compliance risk is reasonably controlled *only* if a certain ethical culture is established that endorses the underpinnings of financial regulation. To the contrary, this chapter is less concerned with adherence to specific legal rules as necessary condition for being compliant. The perspective of compliance as an ethical concern is supported in Newton (1998). It states: "the objectives underlying the regulation of financial services do not amount to senseless bureaucracy" (Ibid, xiv). It reflects thoughts upon the values underlying the objectives of financial regulation: "they are anything other than supportive of *the greater good* of the users and providers of financial services" (Ibid, xiv). Eventually, it determines that regulation of financial services is nothing more than applied ethics. The reasoning that financial regulation intends to provoke certain ethical behavior forms the basis for this first chapter. The general aim is to unfold this behavior and to translate this into one or multiple construct(s), which will be used to define the so-called compliance content from the overall business code content in the course of the empirical research.

This chapter develops into providing response to the first two sub-questions, mentioned in the thesis' introduction chapter. The aim is to arrive at these answers on a well-reasoned manner. The sections 2.2, 2.3 build up to provide a comprehensive response on SQ1. Section 2.4 focuses on SQ2. Thereby, it uses the insights that are acquired in the preceding sections. In order to arrive at these questions, this chapter starts with considering the need of financial regulation. Traditional financial intermediation theory explains why providers of financial services exist. Asymmetric information is considered an important explanation in this regard. However, it is in turn the reason for the existence of financial regulation. This is all detailed in section 2.2. The continuing section provides some background on the financial regulation that is applicable to the institutions performing services in the NL financial sector. This section touches in a general sense on what WFT is intending and it explains which institutions are subjected. Leaving the legal perspective, section 2.4 continues with a close look on the ethical behavior that regulation pursues. Eventually, a theoretical perspective is provided regarding the concept of 'trustworthiness'. Drawing upon this concept enables to identify the compliance content in business codes. Finally, this chapter ends with a summary upon SQ1 and -2. This is included in the concluding section 2.5.

§ 2.2. Why regulation is needed

Under the proposition that financial markets allow for a fully efficient allocation of resources (i.e. perfect markets), then financial intermediation would not offer any added value. Allen & Santomero (1997) appoints a range of very well known economic theories, which suggest that financial intermediation is superfluous once the underlying theoretical assumptions are met in practice. Without mentioning these theories, they all suggest somehow that participants in the financial markets are able to interact without the interference of financial intermediaries. However, there is a role to play for intermediaries in financial markets. In fact, intermediaries such as banks, insurance firms and pension funds are indispensable in economies and they have been for centuries. Their presence in economies requires for an explanation upon their existence. Scholars have tried to comprehend the raison d'être of financial intermediaries. This is referred to as *financial intermediation theory*. The initial perspective on this theory claims that the legitimacy of intermediaries follows from *transaction costs* (Gurley & Shaw, 1961) and *asymmetric information* (Leland & Pyle, 1977). Allen & Gale (1998) termed this as the *traditional paradigms* for financial intermediation theory.

This section elaborates on the function of financial intermediaries in bridging information asymmetry. The first part of this section describes this further. Information asymmetry simultaneously unleashes problems between (retail) consumers in the financial sector and intermediaries. It poses the need for financial regulation. This is elaborated in the second part. The section's third part delineates financial regulation for the thesis' remainder.

Bridging information asymmetry

Traditional financial intermediation theory is introduced above. Scholten & Wensveen (2000) mentions that it uses 'the perfect market as benchmark'. The theory argues that the assumptions of the efficient market are not met in practice. Otherwise, participants in the market would have interacted without the interference of intermediaries. This reasoning ascertains the presence of market failures. Hence, financial intermediaries exist for the purpose to restore those failures. Scholars tried to comprehend the failures the intermediaries are able to restore. This led to the conclusion that the latter has a role to play in reducing transaction costs and bridging information asymmetry. Up to here, theory is briefly outlined. Though, a definition upon the theory its subject is still ignored. Allen & Santomero (2001: 273) define *the financial intermediary* as an entity that performs the function of "reallocating the resources of economic units with surplus funds to economic units with funding needs". The financial sector offers many different products to savers and investors through a number of institutions (Herring & Santomero, 1995). It continues with mentioning an inexhaustible list of financial intermediaries including savings banks, insurance companies, investment banks, mutual funds, and so on.

Returning to the function of financial intermediaries in bridging information asymmetry. In a financial market, in which intermediaries are absent, participants, for instance firms and households need to interact directly with one another in order to allocate resources efficiently and maximize welfare. Firms are able to directly issue financial claims[1] to households. However, the latter might be deterred to invest: "They must worry about the performance of those whose actions determine the returns on their financial investments" (Herring & Santomero, 1995: 8). Households need to spend considerable resources for making the right investment decisions (Ibid). This contains collecting and analyzing information on firms, negotiating contracts and monitoring firm performance. Thakor & Bhattacharya (1993) defines the spending of these resources as *transaction costs stemming from information asymmetries.* In the absence of intermediaries, each individual household would incur these costs. Eventually, these costs might be so high that households refrain from directly investing in firms. When one is unwilling to invest, then financial resources are sub optimally allocated and the efficient market is distorted.

Financial intermediaries are able to restore the above market distortion by bridging the information asymmetry, which households previously experienced over firms. According to Allen & Gale (1998) intermediaries have the advantage of increasing returns to scale when providing information. "Once the intermediary has paid the fixed costs of acquiring information, it can provide it to all its costumers at nearly zero marginal costs" (Ibid: 7 and Diamond, 1984). In addition, an oft-cited publication is Leland & Pyle (1977: 371). It reckons that "without information transfer, markets may perform poorly". It suggests that financial intermediaries can signal their informed status by investing wealth in assets about which it has special knowledge. In sum, intermediaries have the ability to lower the investor's cost of information asymmetry through increasing returns to scale and through developing specialized knowledge about certain assets.

The problem of information asymmetry

Financial intermediaries enable to bridge information asymmetry between the initial participants in financial markets. While they should enhance market efficiency, there is, however, no *laissez-faire* between financial intermediaries and consumers of financial services. In fact, there is regulation that governs intermediaries. In order to explain the existence of regulation, it is convenient to start once more with the 'perfect market as benchmark'. One of the premises to the efficient market is that resources are optimally distributed and welfare being maximized. However, the welfare of consumers of financial services might be compromised when regulation is absent. In fact, when mere laissez-faire is applied in the financial sector, there is a risk that intermediaries perform undesirable

[1] Financial claim is considered a contractual agreement that entitles the holder to a future payoff from some other economic unit (Herring & Santomero, 1995).

actions to the detriment of their costumers. Regulation in turn, intends to prevent these market failures from happening and aims to protect consumers of financial services. This reasoning is adopted from Llewellyn (1999). It recognizes the correction of market failures as the ultimate justification for protecting consumers of financial services.

Some refinement should be made to the type of consumer with reference to financial regulation. According to Benston (2000) is the protection of *retail consumers* considered as the important justification for government regulation. To the contrary, regulation is less evident when it concerns *professionals* dealing with one another (Goodhart el al., 2008). It is reasonable for retail consumers to demand regulation as they are deemed to make decisions with limited information and expertise. In this sense, they can be regarded as 'unsophisticated' (see: Herring & Santomero, 1995 and Pacces, 2000). The remainder of the theory therefore focuses on the retail consumer, as financial regulation merely relates to protecting the latter from undesirable actions performed by intermediaries.

It is evident that financial intermediaries suppose to bridge information asymmetries with providing financial services towards consumers. It would be ideal for the latter to be supplied with an *efficient vehicle of information*: an optimal amount of information necessary for consumers to make rational and conscious decisions according to their preferences (Pacces, 2000). However, asymmetric information is *potentially* problematic for the provision of efficient information. It means that consumers may face difficulties with assessing the quality of the information rendered (Herring & Santomero, 1995). This relates to the *ex-ante information* – the ones on which they base their decisions. It is as well related to the *ex-post information* – the information resulting from the services purchased. Assessing the latter information is particularly difficult: is an unfavorable outcome the result of bad luck, even though information was honestly and competently rendered, or is it the result of incompetence or dishonesty (Herring & Santomero, 1995)? As consumers face difficulties with evaluating financial information, they are vulnerable to *adverse selection*, which means choosing an incompetent or dishonest firm and *moral hazard*, which occurs when intermediaries put their own interest or interests of other costumers above those of the costumer or even engage in fraud (Ibid). "In short, uninformed customers are vulnerable to incompetence, negligence, and fraud" (Ibid: 31).

In sum, the presence of asymmetric information might endanger the efficient market in the absence of financial regulation. Pacces (2000) mentions in this perspective a "race to the bottom": a process that leads to a market where only poor quality services are provided and consumers eventually refrain from financial markets. Financial regulation, therefore, pursues to maintain confidence in the financial sector through protecting consumers from undesirable actions that might compromise their welfare.

The applicable type of financial regulation

The above section explained why financial regulation is relevant and it simultaneously defined the regulatory purposes as it aims to maintain confidence in the financial sector. However, the kind of regulation that responds to these purposes is not considered yet. Because there exists a vast body of financial regulation, it is considered appropriate to delineate the type of regulation that is relevant to this thesis. According to Llewellyn (1999) is regulation divided into (i) *prudential regulation* and (ii) *conduct of business regulation*. Prudential regulation contains general rules on the stability of all enterprises and entrepreneurial activities and specific rules due to the special nature of financial intermediaries (Gi Giorgi & Di Noia, 2002). It focuses in a general sense on the safety, solvency and soundness of financial institutions (Llewellyn, 1999). Despite the importance of prudential regulation for the financial sector, this thesis focuses, however, on conduct of business regulation. While prudential regulation intends to keep intermediaries safe and sound, is conduct of business regulation concerned with how intermediaries conduct business with their costumers (Llewellyn, 1999). This latter feature demands of intermediaries to conduct themselves within certain moral or ethical boundaries. This requires behavioral guidance and business codes, in particular, have the ability to provide this.

In short, theory is narrowed down to conduct of business rules. Though, it is important to consider that both types of regulation emerge from a similar cause, which is asymmetric information (see: Allen & Herring, 2001). Nevertheless, prudential regulation is focused on the institution *per se*, in particular its liquidity, solvency and riskiness. To the contrary, conduct of business regulation focuses on the functions that an intermediary performs (i.e. the services it provides) (see: Llewellyn, 1999). It establishes rules and guidelines about appropriate behavior and business practices in dealing with customers (Llewellyn, 1999). This latter perspective forms the starting point for the remaining sections of this chapter.

§ 2.3. WFT

The former section expressed the need to govern the acts of financial intermediaries through financial regulation. Eventually, it determined that theory focuses on conduct of business regulation as it intends to provoke servants in the industry to act within limits of good behavior. This section outlines the regulatory framework in which conduct of business regulation is adopted. First, an introduction is provided into regulatory supervision of the NL financial sector. Then, the structure of WFT is treated continued with an explanation upon the financial undertakings that are governed by WFT. Explaining the latter is relevant as it determines the population on which a sample will be drawn for empirical inferences.

To clarify, this section intends to outline the regulatory framework but does not treat the legislation itself. Treating the letter of the law would obviously surpass its goal as this thesis is most-importantly interested in what the law intends (its spirit) and the ethical behavior that is appealing in this regard.

Regulatory supervision: the functional perspective

The purpose of regulatory supervision is to ensure that rules and standards are properly applied in financial firms. Initially, there existed three distinct supervisory authorities that conducted supervision upon (i) banks, (ii) insurance companies and pension funds and (iii) investment companies, respectively. This system is referred to as *institutional or sectoral supervision*. The latter maintains effective as long as sectors maintain separated. However, intermediaries have expanded their services over multiple sectors: banks started providing insurance services and vice versa. In addition, combined financial products were introduced, covering multiple sectors (see: Veldkamp, 2007). As a result, the sectors on which the initial system of supervision was based started blurring. This provided the impetus for the reformation of the sectoral approach into a *functional supervisory model.*

To date, the functional approach or the so-called *twin-peaks model* is applied in the NL financial sector. This current system is based on two regulatory supervisors (i.e. two peaks). The premise of this system is that both supervisors bear responsibilities towards all financial intermediaries[2] and hence, each intermediary deals with each of the supervisors. The Dutch Central Bank (DNB hereafter) conducts the prudential supervision, which is concerned with the financial stability of the governed institutions. The Authority for the Financial Markets (AFM hereafter) is responsible for monitoring the enforcement of conduct of business rules by intermediaries (i.e. conduct of business supervision). The latter focuses on (i) ensuring orderly and transparent financial market processes, (ii) proper relationships between market participants and (iii) the exercise of due care by financial undertakings in dealing with clients[3].

Financial Supervision Act (WFT)

The functional supervisory model, which was introduced to the NL financial sector during 2002, is considered as the prelude to the introduction of WFT. The latter eventually took effect in 2007. Before then, financial regulation was fragmented, meaning that separate laws governed different types of institutions. WFT changed this as it assembles all laws for financial undertakings and financial markets (See: KPMG, 2008). The structure of WFT

2 *Kamerstukken 10/02/2011 Financiën, Visie toezicht op afstand*
3 *Obtained from the DNB website (http://www.dnb.nl)*

comprises six parts. The first part consists of general provisions and definitions. Part two includes entry-requirements for financial undertakings to financial markets. Then, the prudential regulation, the conduct of business rules for financial undertakings *and* for the financial markets are adopted in part three, four and five, respectively. Regulation with reference to the infrastructure of financial markets is adopted in part six. Each of these parts is subdivided into chapters and sections. WFT is considered a *framework law* (KPMG, 2008). It contains laws itself and it functions as *'a peg'* for lower legislation. For sake of completeness will be mentioned that the legislation, adopted in WFT, consists of four layers. Though, an elaboration upon these layers is not provided as it falls beyond the theory its scope.

As mentioned earlier, the protection of retail consumers is considered as the relevant motive for financial regulation. This perspective enables to narrow WFT down to the fourth part, i.e. the conduct of business rules for financial undertakings. Part five does contain conduct of business rules as well. Though, it applies to all participants of financial markets, including consumers, and does not exclusively appoint to financial undertakings. Therefore, part five will not be treated further. So far, the term 'financial undertaking' is used several times. Though, a definition is not provided still. Section 1:1 of WFT captures the definition of 'financial undertaking'. Eventually, it divides nine different undertakings. Intermediaries are required to obtain permission from the AFM for each undertaking it performs prior to performing financial services. This is perceived as 'fit and proper test' for intermediaries (see: Allen & Herring, 2001) and demands specific requirements of directors and their employees. The conclusion is that practically each financial service provider is governed by WFT. This means in any case that WFT does not raise restrictions to the population on which a sample will be drawn. Defining the population and drawing the research sample is adopted in the methodology section of this thesis.

The fit and proper tests and the ongoing supervision are based on requirements, which are grouped into (i) *competence,* (ii) *trustworthiness* and (iii) *integrity*. The first group points in particular to those employees, which have direct costumer contact. The AFM assesses professionalism according to the presence of required diplomas and/or certificates (4:9 WFT). The trustworthiness of directors and employees should be beyond doubt. One assesses this by asking at least executives about their criminal records (4:10 WFT). The integrity extends to the business operations. Firms should have procedures for the handling of incidents and for reassuring the trustworthiness of its employees (4:11 WFT). Further analysis of these groups with reference to WFT requires legal hence, technical deepening. This is beyond the theory its scope. However, the following section will examine the above concepts from an ethical perspective in order to define WFT content from the overall business code content.

§ 2.4. Ethical behavior

Some relevant behavioral criteria, accommodated in the conduct of business rules of WFT, were treated at the end of section 2.3. Whilst these criteria have a legal interpretation, they carry an ethical connotation too. This section is concerned with the latter, hence the spirit of the law. It develops the concept of *'trustworthiness'* from a business ethics perspective. The previous sections have proven that protecting consumers is central to financial regulation and necessary in order to safeguard *trust* in the financial sector. This section defines features of ethical behavior, which are subordinated to the concept 'trust'. Eventually, these features will act as indicators that may have the ability to signal references in business codes that point to demonstrating trustworthiness to consumers. Given the regulatory underpinning of WFT to safeguard trust, this enables to draw empirical inferences on whether financial firms intend to mitigate compliance risk using business codes. Otherwise stated: whether business codes have an intended impact on mitigating compliance risk.

The definition of trust

Attempts to define trust as theoretical concept are made from various academic disciplines to date. It has been defined and studied from a psychological and a philosophical to a business management and sociological perspective (see: Dibben, 2000). This section highlights trust from a business ethics point of view. The relationship between business ethics and trust is adopted in Bews & Rossouw (2002). It states that ethics play an important role in facilitating trust. Simultaneously, trust can be misused, which results in unethical behavior. It considers the ambiguity between trust and ethics and continues with a study on the process of trust formation and on the facilitators of trustworthiness. Even though Bews & Rossouw (2002) is highly relevant, this section, however, defines business ethics first. According to Raiborn & Payne (1990: 879) is ethics considered as 'a system of value principles or practices and a definition of right and wrong'. It commonly refers to 'just' or 'right' standards of behavior (Fraedrich & Ferrell, 1993). Business ethics is in particular pointed towards the business environment. Steiner & Steiner (1980) indicates that business ethics is concerned with the impact of decisions on people within and without the firm, individually and collectively (see also: Vitell & Festervand, 1987). Currently, one has understood the linkage between trust and business ethics and also, that business ethics is concerned with good or moral behavior within the business environment. Further refinement on the latter concept is however not applied, as it will wander off to a complex discussion on what is considered good or moral (see: Lewis, 1985). This section therefore continues to focus on trust with reference to the industry of financial services. Ennew & Sekhon (2007) offers important response here, as it explains the importance trust for facilitators of financial services by means of 'risk', 'interdependence', 'vulnerability' and 'confidence' as the appropriate concepts. This is motivated below.

CONCEPT	INTEPRETATION
RISK	*Trust is needed if there is risk involved. Risk is inherent to financial services and compounded by the limited knowledge of consumers and other uncontrollable factors (Ennew & Sekhon, 2007).*
INTERDEPENDENCE	*Interdependence is inherent to financial markets. Consumers often need an intermediary to provide them with their financial needs, which makes them independent.*
VULNERABILITY	*Once consumers face both, risk and interdependence, they are considerably vulnerable. In addition, financial services can and do have a significant impact on consumers welfare, which adds up to the vulnerability already faced.*
CONFIDENCE	*Vulnerable consumers are in need of positive expectations about future behaviors of the intermediary. These positive expectations are regarded as the trust the consumers places in the financial service provider.*

Vulnerability and confidence are closely related to one another. Referring to the purchase of financial services, consumers should accept vulnerability, only if they are sufficiently confident in the future behavior of the intermediary. As consumers of financial services are significantly vulnerable, they should demand confidence of the same order. This leads to the conclusion that trust is very crucial for a proper operation of the industry of financial services. This implies that acting trustworthy is not a sole matter of compliance with regulation but also, intrinsically important for successful business operations. Though, other intends for promoting trust within businesses is left aside as it extends beyond the scope of the theory.

Indicators of trust

Building trust as theoretical concept, confirmed the importance of trustworthy behavior for the adequacy of the financial services industry. This subsection applies the similar concept in order to define constructs, which enable to signal the attention for trustworthy behavior. Here, Bews & Rossouw (2002) provide the theoretical means, since this study concerns the process of trust formation and also, the facilitators of trustworthiness. It mentions that, in the initial phase of a relationship, trust is determined by expectation. Once the relationship flows into an evaluative phase, then *trustworthiness* comes into play. This is interpreted as a determination on whether one is trustworthy, according to criteria that constitute trust. Bews & Rossouw (2002) refer to these criteria as *facilitators of trustworthiness*. Other references found are *antecedents* (Mayer et al., 1995), *dimensions* (Mishra, 1996) and *characteristics* (Engelbrecht & Cloete, 2000) of trust. However, considering the function of these criteria in the course of research, it is preferred to refer to them as *indicators*, meaning they should indicate or signal whether or not references in business codes point to demonstrating trustworthiness towards consumers. Reviewing Bews & Rossouw (2002) and adjacent literature yielded four criteria, which are enabling to signal the attention in business codes to trustworthiness. The constructs (i) openness, (ii) integrity, (iii) benevolence and (iv) competence are applied as the indicators of trust. Further motivation is added in the table below.

Exhibit (5) – Indicators of trust- The table below depicts the defined indicators of trust. Nomenclature is added in column one. The second column mentions studies that refer to the respective indicator in connection with maintaining, improving trustworthiness. Definitions upon the indicator are adopted from Bews & Rossouw (2002) or otherwise indicated. References of a similar nature are shown in column four. These are particularly relevant for the examination of business codes.

INDICATOR	LITERATURE	DEFINITION (Bews & Rossouw, 2002)	SIMILAR REFERENCE
OPENNESS	Mishra (1996) / Robbins (1997) / Hay (1999)	*Act in an open manner and disclose fundamental information required to sustain the relationship.*	Open communication / Disclosure
INTEGRITY	Raiborn & Payne (1990) / Mayer et al. (1995) / Engelbrecht & Cloete (2000)	*The application of a set of moral, ethical principles acceptable to both trustor and trustee, which are predictable and reliable and which lead to equity.*	Consistency / Reliability / Fairness / Sincerity / Honesty / Candor
BENOVELENCE	Mayer et al. (1995) / Mishra (1996) / Robbins (1997) / Ennew & Sekhon (2007)	*The issue of concern for another, not taking advantage of the vulnerability of another and perform acts in the interest of another.*	Concern / Loyalty / Goodwill
COMPETENCE	Mayer et al. (1995) / Mishra (1996) / Ennew & Sekhon (2007)	*Skills, competencies and characteristics that enables to have influence within some specific domain (Mayer et al., 1995: 717).*	Capable / Reliable / Duly qualified / Ability / Expertise

In summary, the ethical behavior that financial regulation pursues is closely related to trust. This section demonstrates that the consumer's confidence in intermediaries is crucial for the industry of financial services. Eventually, important criteria are adopted from prior literature, which enable to determine whether one is trustworthy or not. These criteria have the ability to act as indicators in order to draw inferences on whether business codes have an impact on guiding trustworthiness, hence mitigating compliance risk.

§ 2.5. Conclusion

Consumers of financial services enjoy protection against undesirable actions from financial intermediaries in order to preserve efficiency of the financial sector. This is facilitated through the imposition of regulation, i.e. the conduct of business rules of WFT. The reason to protect stems from information asymmetries between both actors. Bridging asymmetries efficiently implies providing consumers with adequate information on which they can decide to engage in the services offered. Though, consumers will interact unless they have reasonable positive expectations about the present and future behavior of intermediaries. This touches upon the concept of trustworthiness: the underpinning purpose of financial regulation. Elaborating on this concept from the perspective of business ethics enables defining four qualities that are key to delivering trustworthy behavior: the indicators of trust. Thus, if firms intend to promote the ethical behavior underpinning financial regulation, they should stress trustworthiness, which is expressed in properties that are related to openness, integrity, benevolence and competence.

Chapter 3 – Principle-based regulation & Control orientation

§ 3.1. Introduction

The former chapter defined the required ethical behavior underpinning financial regulation and translated this into measurable constructs. These resulting indicators enable to measure whether FIs included behavioral requirements into their business code that allow them to mitigate compliance risk effectively. Currently, the required ethical behavior is defined. This chapter therefore continues with an elaboration on the different manners to which this behavior is possibly attained in organizations. The theoretical guidance hereto is initially provided in Weaver et al. (1999b), Trevino et al. (1999) and in Weaver & Trevino (1999). These scholars acquired insights of preceding theorists as Adler & Borys (1996) and Paine (1994) and then defined two opposite orientations for guiding organizational ethics. This is referred to as the theory on *control orientation*. The appropriate orientation for guiding ethical behavior will be evidenced from the regulatory design that consists in WFT. The latter has moved to a *principle-based regulatory regime* (PBR hereafter.) PBR means more reliance on the regulatory aims and is less concerned with prescriptive rules and with supervisory actions on how FIs should operate their business (FSA, 2007). This chapter tries to unfold the implications of PBR for behavioral guidance first. It then offers a consideration upon the orientation that is likely to provide appropriate response to the implications of PBR.

This chapter results into a theoretical conclusion on the control orientation that is responding to the behavioral implications of PBR and hence, the orientation that is most effective for mitigating compliance risk. It simultaneously provides response to SQ3, SQ4 and SQ5. As the valid manner for guiding behavior will be evidenced from PBR, then it is evident to treat PBR first and its implications for guiding ethical behavior thereafter. These issues are discussed in section 3.2 and 3.3. The theory on control orientation is then elaborated in section 3.4. This is approached from the scholarly discipline of management control and eventually narrowed down into a conclusion regarding the control orientation that is foremost responding to PBR. Finally, the concluding remarks of this chapter are adopted in section 3.5.

§ 3.2 Principle-based financial regulation

WFT has introduced a principle-based regulatory design to the financial regulation in the NL financial sector. This section will disclose important implications for financial firms who are subjected to principle-based financial regulation in general and with regard to WFT. First, a brief distinction is drawn between rules and principles in other regulatory domains. Then, the implications of PBR are described along three relevant characteristics.

Two opposites systems in regulatory design

The choice between a rule-based and principle-based approach is not restricted to financial regulation. Indeed, the similar variation is shown in regulation on corporate governance as well as in accounting standards. An example of RBR in corporate governance is the Sarbanes-Oxley act, which is enacted in the United States in 2002. To the contrary, the Hong Kong Code of Best Practices is typically PBR. Also, the US accounting standard, US GAAP, is generally referred to as RBR whereas its European counterpart, IFRS, is considered PBR (Schilder, 2008). The distinction between RBR and PBR is, in each of these instances, rather similar. If one considers regulation as a set of norms designed to achieve a certain outcome, then RBR fills these norms with prescriptive rules on what is considered as an acceptable interpretation of the norm. PBR merely expresses the norm. The interpretation of a proper execution of the norm is left to the regulatory subject (Brosens & ter Weel, 2008).

Principle-based financial regulation

Adequate characterizations of principle-based financial regulation are illustrated in Black et al. (2007), Black (2008) and in Ford (2008). These studies contain critical reflections on PBR regulatory regimes applied in the United Kingdom and in British Colombia (Canada). It is likely that there are differences between these approaches and the one that consists in WFT. But these studies do describe general applications of the regulatory design too. It is therefore relevant to build on them in order to define the implications of PBR for FIs who are subjected to WFT. Black et al. (2007) shows that principle-based financial regulation is associated with the following three features. It contains (i) *broad-based standards* in preference to more detailed rules, it consists in (ii) *outcome-oriented regulation* and it imposes (iii) *increased responsibility for regulated firms.* The sequel of this section explains important implications of principle-based financial regulation for FIs using these three characteristics.

Broad-based standards – the relevant attributes that consist in a broad-based standard, or principle, are provided in the table below. These are obtained from Black et al. (2007).

ATTRIBUTE	DESCRIPTION
High level of generality	A principle is an overarching requirement. Intended to be applied flexible in a rapidly changing industry.
Qualitative	A principle is qualitatively stated. It usually concerns evaluative terms, such as "reasonable", "fair" and "suitable".
Purposive	A principle expresses the reason behind the rule or norm.
Broad application	A principle can be applied to a wide range of circumstances.
Behavioral standard	A principle expresses desired behavior by means of mentioning concepts as “integrity”, “skill”, “reasonable care”, “treating costumers fairly” and “manage conflict of interest”.

From the attributes above follows that the application of principles (in favor of detailed rules) has implications for FIs in the way they deal with financial regulation. It is argued that principles have 'the benefit' of *congruence* (Black, 2008). They communicate the intended objective and, simultaneously, the behavior that should be demonstrated by FIs in order to adhere to the objective. This congruence does not necessarily apply to (detailed) rules and therefore, rules may fail to achieve their underlying purpose. Black (2008) mentions that rules may be rather easy to manipulate or to be avoided. This is referred to as 'creative compliance' and occurs when regulated firms comply with the rule its form but not with its substance, i.e. with what it actually intends. Principles, as opposed to rules, do have the ability to minimize the scope for creative compliance. It is the ability of congruence, which imposes FIs to not only comply with the letter of the law but also with its underlying purpose, hence its spirit.

As shown, rules are prone to creative compliance, whereas principles minimize opportunities in this regard. In general, principles and rules have opposite properties. Ford (2008) appoints to this that principles have advantages, which are the flip side of rules' disadvantages. This applies also vice versa. In fact, principles may be less favorable than rules as to their clarity and certainty. It is generally assumed that rules are relatively straightforward and easy to apply. Contrary to rules are principles less clearly formulated, which may lead to uncertainty among FIs on whether they have applied the principle in their business correctly. Therefore, it is important for regulator, supervisor and regulated firm to have a *shared understanding* as to the meaning and application of principles (Black, 2008). It continues that this may be facilitated using fairly precise rules. This reasoning helps to discover that principle-based regulation will by no means consist of merely principles; it will have rule-based elements too (see also: Ford, 2008).

Outcome-oriented regulation – principle-based financial regulation focuses on the outcomes. As opposed to rule-based regimes are principles less focusing on the processes that need to be carried out by firms. Rather, principles merely concern the objectives they intend for whom regulation is designed, including consumers of financial services. Black et al. (2007) reflects here that firms and their management are better placed than regulators to determine what processes and actions are required within their business to achieve a given regulatory objective. The measures needed to achieve the desired outcome, are up to the discretion of the regulated firm. Brosens & Ter Weel (2008) adds to this that outcome-oriented regulation appeals to the own responsibility of FIs. It enforces them to consider thoroughly the manner on how they give substance to the outcomes, which are intended by the regulator. Brosens & Ter Weel (2008) continues that detailed rules are less well capable to trigger the responsibility of FIs. Detailed rules fail to convey the underlying purpose of a regulatory norm and as a

result, the behavior of firms may converge to a minimum requirement of conduct. Outcome-oriented regulation, on the other hand, prevents FIs to treat financial regulation in a manner, which is similar to 'ticking boxes'. In stead, it encourages them to go beyond minimal compliance, which assures that intended regulatory outcomes are actually being achieved.

The above explains that firms should think through the manner to which they give substance to an intended regulatory outcome at a far greater degree than when they are confronted with detailed rules. Black (2008) mentions that there is a greater risk for FIs that they will make the wrong assessment as to the application of the norm, i.e. one that the regulator does not approve. It refers to this as *interpretative risk*. FIs may want to minimize this risk by demanding extra prescription by means of rules. These may provide a shared understanding for an adequate interpretation and application of the norm. Though, in the absence of rules there is a crucial role to play for regulator (and supervisor) and regulated. Black (2008) refers in this respect to the importance of 'iterated regulatory conversations' between the two actors as to the meaning and the application of principles. Regulated firms need to think through the application of principles in different circumstances and the regulator has the responsibility to provide clear guidance on the matter. Eventually, this should reduce the interpretative risk of regulated firms and it enables further development of principles (see: Black, 2008). This leads to the consideration that PBR extends beyond merely adopting principles in the rulebook. Indeed, PBR consists in a regulatory regime, which requires the responsibility of, and the mutuality and trust between the regulator and the regulated too (Ibid).

Unfortunately, there is only a limited amount of scholarly studies upon practices of outcome-oriented regulation based on WFT available. This is contrasting the detailed description included in Black et al. (2007) and in Black (2008) with regard to the UK approach upon this matter. Outcome-oriented regulation is nonetheless present in the WFT context. Here, the regulatory outcomes are regarded as 'open norms'. Brosens & Ter Weel (2008) mentions three open norms, which are explicitly present in WFT: (i) costumers must obtain advice that is suitable to their circumstances (4:23 WFT), (ii) costumers must obtain understandable and clear information (4:19 WFT) and (iii) financial firms should manage and control their risks adequately (4:11 WFT). The open norms of WFT, demonstrate what they intend and simultaneously describe what they require from FIs. For instance, FIs are adhered to the open norm of suitable advice (4:23 WFT). Therefore, they need to obtain client information and provide them with advice, which is complement to the client information gathered. FIs obviously need to adhere to the open norm of suitable advice. Though, it is up to them to decide whether the have obtained the necessary amount of client information for providing sufficient advice. There is supposedly an interpretative risk imposed on FIs regarding the

amount and scope of information they need to obtain prior to advice. Therefore, the AFM comes into play in order to reduce the interpretative risk for FIs. The AFM uses several means in this respect. This considers the publication of policy guidelines, regulatory interpretations and guidance documents[4]. Notwithstanding the importance of each of these documents, is only the latter further discussed.

Van Ochten (2010) provides a consideration upon the functioning of guidance documents in providing clarity on the meaning and application of the earlier mentioned open norms. A prominent example is the guidance document 'due care with advising on asset composition[5]', which was published on the AFM website in 2009. This particular document complements the open norm of suitable advice (4:23 WFT) and provides regulated firms with an interpretation as to the scope and quantity of information they need to obtain from their clients. Another example is the guidance document, titled 'open norm understandable and clear', which appeals to written communication to costumers (4:19 WFT). Here it contains guidelines regarding the suitable difficulty level of language to which client information is communicated. Van Ochten (2010) mentions that guidance documents are developed in consultation with market participants, including regulated firms. It continues that the purpose of guidance documents is to express the AFM its view on the application of open norms into the businesses of regulated firms. Guidance documents express best practices in order to encourage that regulated firms go beyond minimal compliance and eventually improve the quality of financial services (see: Maatman & Azahaf (2010) in: van Ochten, 2010).

Increased firm responsibility – principle-based financial regulation showed that prescribing detailed rules have given way to more discretion to regulated firms as how to apply regulatory norms into their business. One might argue that principle-based financial regulation lessens the length of the rulebook. Though, PBR is by no means conceived as deregulation. Instead, it invokes a re-framing of the regulatory relationship between the regulator and the regulated (Black, 2008). This means a shift from a directing relationship of 'telling and doing' to a relationship where the regulator communicates its expectations clearly (as shown) and the regulated adopts a *self-reflective* approach to the development of processes and practices to ensure that the expectations are substantively met (Black, 2008). This too means that firms should have reasonable assurance that principles are upheld within their business. This final characteristic of principle-based financial regulation focuses on this latter perspective, which means that firms should manage their compliance risk adequately.

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4 The three terms are derived from the Dutch terms 'beleidsregel', 'wetsinterpretatie' and 'leidraad', respectively.

5 Title is derived form the Dutch title 'Zorgvuldig adviseren over vermogensopbouw'.

The regulatory objective to attain and maintain compliant business processes demands an increased responsibility of the firm its senior management. Under the UK regime, it is meanwhile practice to increasingly rely on senior management in this regard (see: Black et al., 2007). Stijnen (2008) mentions that also the AFM has announced to shift the balance in order to demand more commitment of senior management. It argues the importance of the role of senior management to ensure that there is a shared understanding upon how business operations are conducted. Organizational members should see the need to adhere to certain guidelines and it is up to senior management to give the first impetus to do so. This is commonly known as 'tone at the top'. As the latter should lead in carrying out the desired ethics, it is, for this reason, that regulation draws attention upon them. Chapter two already showed that WFT poses various requirements on senior management of regulated firms.

Senior management leads in providing the right example. In addition, WFT actually submits responsibility to the latter as to implementation of controls, which ensures sound business operations. This is reflected in WFT 4:11 and in WFT 4:14. The first regulatory norm states that regulated firms conduct policies that ensure integer business operations. Firms should make sure that (i) conflicts of interest, (ii) legal malpractices and (iii) breaches of confidence are countered. The second regulatory norm has a typical principle-based nature. WFT 4:14 states that firms should design its operations in such a manner that it ensures controlled and integer business. Firms are therefore upheld to assess their risks first and to adapt their control measures to these risks subsequently. Van Ochten (2010) confirms this view as it states that the regulator encourages regulated firms to develop internal control systems, which ensures that compliance risk is adequately managed. Senior management has the end responsibility for the effectiveness of these control systems (see: DUFAS, 2011).

This section reflected on three features of principle-based financial regulation in order to define its implications for regulated firms. If the latter is deemed to provide good response to PBR, then they should actually adhere to the ethical behavior that regulatory norms try to provoke. This is due to the application of broad-based standards in favor of detailed rules. This reduces the opportunity for FIs to creatively comply with regulatory norms. The law its focus on outcomes for whom regulation is designed strengthens the involvement of FIs in order to meet with the regulatory aims. They need not just rely on implementing government-imposed processes for having compliant businesses. Rather, FIs have to interpret the open norms contained in PBR and they need to implement these accordingly. Iterated regulatory conversation supports FIs to a proper application of open norms and improves the quality of principles applied. In all, this has shifted the regulatory responsibility to regulated firms, which are encouraged to adopt a self-reflective approach to adhere to financial regulation.

§ 3.3. Implications for behavioral guidance

The self-reflective approach that consists in PBR places a considerable responsibility on FIs regarding their effort to respond adequately to regulatory norms. WFT encourages regulated firms to adopt risk-based compliance to control its risks accordingly. However, this section does not elaborate on risk management for compliant business practices. Rather, it pays attention to the manner in which the ethical behavior underpinning financial regulation should be guided and in particular, in response to PBR. This section thus reflects on implications that principle-based financial regulation may have for regulated firms regarding the manner to which they guide ethical behavior. This reflection is the prelude to section 3.4, which applies the perspective of control orientation to the theory. Hence, this section draws implications without specific theoretical guidance upfront. But it does, however, build on the assumption that *coherence* is needed (or at least desired) between what the regulators intends from a regulated firm and how the latter responds to these intentions into its business. This means that the underpinnings of broad standards, the orientation on outcomes and the transferred responsibility to firms need be reflected in the manner to which regulated firms guide behavior of managers and employees in order to mitigate compliance risk effectively. Building on this assumption of coherence, has yielded into several implications of PBR for guiding ethical behavior. This section draws upon these implications.

Ethical compliance –PBR results in an increased focus on ethical behavior within the organization. Regulated firms need not obey a list of legal procedures in order to comply with law. It is due to the enactment of broad-based standards that firms should meet behavior, such as integrity and trust in order to fulfill regulatory norms. It seems relevant or at least desirable, that the underpinnings of broad-based standards are reflected in the manner in which the behavior of employees is controlled. To this end, firms should not predominantly impose legal, administrative procedures upon employees. The latter may become embroiled into a multitude of rules that will distract them from attaining the actual purpose of a broad-based standard. Besides, imposing merely rules offers the opportunity for creative compliance through gaming or the avoidance of rules. Employees should not be held accountable for the abidance of specific legal rules. Rather, firms should make their employees *responsible* as to the decisions they make and the degree to which these are morally (and legally) acceptable. To this end, employees need be encouraged to conduct themselves according to values and ethical aspirations. This mechanism for guiding behavior is referred to in Trevino et al. (1999) as ‘ethical compliance’. Employees should be provided with a set of principles and practices, which will guide their choices (see: Paine (1996) in: Arjoon, 2005). It is assumed that an increased focus on ethical compliance is best able to cope with underpinnings of broad-based standards in principle-based financial regulation.

Responsive enforcement – as shown, outcome-oriented regulation imposes an interpretative risk upon regulated firms. Guidance through iterated regulatory conversation does enable to minimize this risk. Though, the nature of the *enforcement regime* is as well crucial to the success of PBR. Black (2008) argues that the regulator should not take a 'strong punitive approach' to enforcement. If every infraction is met with a sanction, then PBR will transform into a system of detailed requirements and strict boundaries, as that is what firms will need (Black, 2008). Rather, the regulator need apply enforcement *gradually*. It should take a 'negotiative stance' first. If firms then still do not deliver what is expected, then the regulator should apply sanctions of increased severity until firms meet legal obligations. Ayres & Braithwaite (1992) refer to this as 'responsive enforcement'. If the enforcement of regulated firms need not be too punitive, it is likewise reasonable that regulated firms adopt a similar approach to ensure that desirable behavior is upheld within their businesses. It seems illogical (nor desirable) for firms to enforce behavior through strict monitoring and with penalties if one assumes that ethical compliance complements PBR adequately. Organizational members need be encouraged to conduct themselves responsibly using principles to guide their choices. The compliance function of FIs should fulfill its side with determining what needs to be done in order to comply and with guiding the business to become compliant.

The ethical paradox – as shown, PBR has the ability to foster ethics in business. Though, it may also harm it. This is referred to as the 'ethical paradox', which lies partly in PBR itself and partly in its co-junction with risk management strategies (Black, 2008). As firms are provided with open norms, they run a risk that they make a wrong assessment as to the application of these norms into their business. PBR thus requires from compliance to become a risk management exercise. This is referred to as *risk-based compliance*: firms determine the maximum loss their willing to bear from non-compliance first. Then, firms adapt measures to the risk appetite they have set, which ensures them compliance risk are reasonably assured.

Black (2008) says that when compliance is associated with risk management methodologies, then this may run counter to foster a more ethical culture within firms. Firstly, risk-based compliance *mechanizes* ethics. It reduces it into processes, which need be followed, rather than ethics being based on judgment. Secondly, non-compliance becomes an option under risk-based compliance. Deciding what should be done in order to comply is based on whether or not one will be caught for non-compliance and if so, whether one can manage the consequences such that financial loss and reputational damage is minimized. This imperils a responsible and ethical culture, which is focused on achieving outcomes for those for whom regulation is designed (see: Alfieri (2008) in: Black, 2008).

The ethical paradox that consists in PBR has a somewhat ambiguous implication for the way behavior is guided. PBR fosters ethical compliance when regulated firms are adhered to principles. Though, principles, in turn, pose interpretative risks upon firms, which requires them to carry out risk-based compliance too. This may endanger ethical compliance when firms focus too heavily on minimizing losses when non-compliance occurs. Here, firms may become self-centered. They may lose sight of those participants in the financial sector that regulation intends to protect. The conclusion is, however that it is up to the regulated firms to attain the underpinnings of PBR and simultaneously, to ensure that compliance risk are reasonably assured. They need to find balance between ethical and risk-based compliance.

This section has drawn implications of PBR for regulated firms as to the manner to which they should guide ethical behavior of managers and employees. This section built on the acquired knowledge on PBR, contained in section 3.2. It thereby supposes that there should be coherence between what PBR intends from regulated firms and how the latter responds to this as to guiding behavior of its organizational members. This considered, resulted into the assumption that 'ethical compliance' provides adequate response to the underpinnings of PBR. This concept embraces a view on guiding behavior, which is positive and responsible instead of being repressive and accountable. Desired behavior need not be enforced through strict monitoring and applying penalties. Rather, the compliance function of FIs should be empowered to guide organizational members towards responsible, ethical business conduct.

However, this section also showed that PBR is prompting regulated firms to adopt risk-based compliance, which may run counter to the efficacy of ethical compliance. If FIs apply the standard risk management methodologies to control compliance risk, there is a risk that they become too self-centered and hence, no longer committed to the ones for which financial regulation is designed. The conclusion of this section is therefore somewhat puzzling. Still, it is argued here that both ethical compliance and risk-based compliance can be concurrently applied in businesses of regulated firms. Eventually, it is up to the regulated firms to find a proper balance by means of using risk-based compliance to indicate where compliance efforts are needed most and ethical compliance as the manner to which behavior should be guided. The following section will particularly focus on the concept of ethical compliance in order to define the control orientation that provides adequate response to the principle-based financial regulation of WFT.

§ 3.4. Management control & control orientation

The former section hinted that ethical compliance might provide an adequate response as to guiding organizational members towards the desired behavior. Here, the chapter continues with an extensive theoretical consideration on the different manners for guiding behavior, thereby taking into account the insights that were acquired in the preceding two sections. These manners for guiding behavior are subsumed into the theory on control orientation. The ultimate aim of this section is to determine *the* control orientation that is best able to cope with the behavioral implications of principle-based financial regulation. Needless to say, this orientation should allow FIs to effectively mitigate compliance risk, which stem from WFT.

To arrive at the appropriate orientation, this section will provide a general introduction into *management control* first. This thesis adheres to the idea that influencing and standardizing organizational behavior is embedded into the scholarly domain of management control. It is therefore reasonable to define management control and defining this concept simultaneously captures its linkage with guiding ethical behavior. Narrowing the theory continues into a theoretical discussion upon control orientation. Section 3.1 already unfolded two opposite systems of guiding ethics in organizations, which are referred to as values-based and compliance-based. Both systems will be treated as well as their relationship with one another. This provides the answer to SQ5 but, more importantly, it offers the theoretical conclusion as to the control orientation that is best able to cope with the implications of PBR.

A final thought before this section starts. The introduction above remarked that 'ethical compliance' might provide best response to PBR. While this concept covers the manner of guiding behavior adequately, it is not intended to treat it as such to determine the appropriate method by which FIs should design behavioral guidance. While 'compliance' is a 'common name' throughout this thesis, it does however, merely exists by the virtue of other scholarly domains, such as risk management, management control, business ethics and also financial and securities law. As compliance intersects multiple theoretical guidelines, it is decided to build on management control and the well-defined theory on control orientation in order to select the adequate method for guiding ethical behavior in response to PBR.

A literature review on management control

Reviewing the earlier definitions of management control, one would not directly establish the relationship with guiding ethical behavior of organizational members. Otley et al. (1995) offers a review on management control literature and starts it consideration with the 'seminal work' of Anthony (1965). Here, management control is defined as "the processes by which managers assure that resources are obtained and used effectively and efficiently in the

accomplishment of the organization's objectives" (in: Otley, 1995: 32). This definition is best explained using the contemporaneous *cybernetic view* on management control. According to Hofstede (1978) this means that management control consists of formalized systems in organizations, which are tend to be designed according to a cybernetic philosophy: a process that uses the negative feedback loop of (i) goal-setting, (ii) performance measurement, (iii) comparing achievement to goals and (iv) corrective action. Actual performance is compared with planned performance and if necessary corrective action is taken to ensure that goals are attained. This initial view interprets management control merely as a reactive process (Merchant & Van der Stede, 2007). It also reduces the control information to accounting rationales. An unintended consequence of this initial view on management control is that it the latter has developed itself into an accounting-based framework (see: Otley et al., 1995).

The broadening of management control from a more narrow-viewed accounting discipline into one of guiding organizational members towards the desired behavior is, among others, originated in Flamholtz et al. (1983). It mentions that "organizations and individuals are purposeful, goal-seeking entities, whose goals may not be congruent" (ibid: 36). It then argues that "the raison d'etre of control (systems) is to increase the likelihood that people will internalize organizational goals and thus behave in ways which lead to the achievement of these goals" (ibid: 36). Emmanuel et al. (1990: 97) defines management control as well in terms of influencing behavior. Here, it is deemed to "induce people in an organization to do certain things and to refrain from doing others". Even though the link between management control and behavior became more apparent, the actual broadening of the discipline into influencing and supporting ethical decision-making was not was not made explicit still. This occurred in Simons (1995), though. It proposed management control as a system, consisting of four levers of control, the interactive, diagnostic, belief and boundary system (in: Berry et al., 2008). The latter two are particularly relevant as to the guidance of moral and legal employee conduct. The organization its belief system creates positive and inspirational forces, whereas the boundary system provides constraints, which need ensure the compliance with rules (see: Langfield-Smith, 1997). Since the levers of control in Simons (1995) comprehends a broad range of controls, it contributed to the scholarly domain of management control as it extended it into promoting ethical behavior of members of the organization.

As one focuses on management control as a discipline, which includes promoting ethical behavior of at least managers and employees, then the definition of Emmanuel (1990) seems appropriate as it explicitly focuses on behavior. Evidently, organizational members should be induced to behave ethically and be refrained of doing the opposite. To this end, literature distinguishes two opposite approaches, which are referred to as the *formal* and the *informal*

control system. A formal control system relies on written procedures and policies in order to influence behavior (Norris & O'Dwyer, 2004). Important constituents of formal controls are organizational goals, budgets, reward criteria, performance appraisal standards and also codes of ethics (ibid). Formal controls are considered as verifiable means. Informal controls are, however, not verifiable. Such systems tend to influence behavior of group members (employees) trough beliefs, shared values and traditions, which are learned through a subtle reading of signals relayed by supervisors and co-workers. If one fails to comprehend and to respond appropriately, then one is unable to survive in an organization (see: Jackall (1988) in: Falkenburg & Herremans, 1995).

Several scholars have assessed the effectiveness of formal and informal control systems as to controlling ethical behavior. Gatewood & Carroll (1991) stresses the importance of formal controls. It states that one means to increase the frequency of ethical decisions is to award such activity when it occurs (in: Norris & O'Dwyer, 2004). Formal controls tend to be most effective when the environment is stable, routine behavior is required and employee behavior can be monitored and measured (Falkenburg & Herremans, 1995). Ouchi (1980) acclaims informal controls over formal controls. Written rules are not able to cover all possible contingencies. The tacit rules, produced by informal controls, provide the implicit knowledge as to how the organization works and what it expects. Employees can deduce from the implicit knowledge an appropriate rule to govern any specific situation. Informal controls therefore provide an elegant and complete form of control (Ouchi (1980) in: Falkenburg & Herremans, 1995). Others, such as Noreen (1988), find the success of informal controls ambiguous. It fluctuates from being the strongest to the most fragile system for encouraging the desired behavior (in: Falkenburg & Herremans, 1995).

In sum, management control is perceived as a discipline, which allows promoting the ethical behavior of members in various organizational environments. This subsection reflected on the formal and informal control dichotomy to identify the means an organization may apply to attain desirable ends. Formal controls concern imposed-from-above requirements, whereas informal controls influence behavior through the organization its prevailing culture and its shared believes. Based on this reasoning, one may perceive a business code as a mere formal control. After all, it is assumed that a code contains behavioral prescriptions imposed on those who are subjected to it. Perceiving the business code as formal control is, in turn, confusing given the connotation that scholars have given to formal controls. They perceive them pretty much as rigid and technocratic means. To remove this ambiguity, it is assumed that whether a code is formal as such, is above-all dependent of its nature, hence the control orientation that it expresses. The remainder of this section will therefore elaborate on the latter.

Control orientation theory

The former subsection delineated management control into a discipline, which is concerned with promoting behavior and specifically ethics of members in an organization. It provided an insight into controlling behavior using formal and informal means. The following will take a slight turn, as it provides a theoretical consideration upon *control orientation*. Both, the control systems theory and the control orientation theory are closely related. However, the latter theory is less concerned with the vehicles that should deliver the desired control. It appears logical to elaborate upon the approach of controlling ethics in this chapter, regardless of the vehicle, which provides it. The latter will, in fact, be treated in the subsequent two theoretical chapters. The aim of this section is to deduce from theory, the control orientation that is foremost responding to the implications of PBR. This conclusion is then taken to the final theoretical chapter (five), which will discuss the manner in which this orientation should be reflected in the business code in order to mitigate compliance risk effectively.

Organizational control theory – the explicit interest for control orientation in the mechanisms for guiding organizational ethics is initially cited in Weaver & Trevino (1999), in Weaver et al. (1999b) and in Trevino et al. (1999). Here, the mechanisms are referred to as *ethics programs* and these programs may differ in control orientation. The theory underlying derives its existence from two parallel theoretical branches: (i) organizational control theory and (ii) ethics management (See: Stansbury & Barry, 2007). As to the first theory, Weaver & Trevino (1999) argue that ethics programs attempt to bring order and predictability to employee behavior. To this end, organizational control theory distinguishes two opposite approaches. At first, the *coercive system*, which is designed according to the assumption that employees are disengaged (see: Adler & Borys (1996) in: Stansbury & Barry, 2007). Here, control is seen as necessary in order to bring behavior into conformity with organizational requirements, and sometimes coercively (Weaver & Trevino, 1999). The other extreme is referred to as *enabling system*, which aims for employee identification with, and commitment to organizational goals and values (see: Adler & Borys (1996) in: Weaver et al., 1999b).

Ethics management – this discipline has gained the attention of practitioners, largely due to the adoption of the 1991 Federal Sentencing Guidelines for Organizations (FSGO). Many U.S firms have instituted corporate ethics programs since the adoption of these guidelines (see: Joseph (2003) in: Stansbury & Barry, 2007). In particular because the FSGO describe more lenient sentences and fines to companies that have taken measures to prevent employee misconduct (see: Metzger et al. (1994) in: Trevino et al., 1999). Although external pressures (such as FSGO) appear able to enforce organizations to do something about ethics, there is (however) a wide range of things organizations can do in response (…) (Trevino et al., 2006).

"In particular, organizational ethics initiatives vary in the terms of the kind of control they embody: control based on compelling compliance with policies and expectations or control rooted in the propagation and modeling of a set of ethical values that becomes internalized by employees (…)" (Ibid: 970). These two different manners for promoting organizational ethics stem largely from Paine (1994). Ethics programs are, according to Paine (1994), designed in order to prevent, detect and punish legal violation or in the capacity that it combines a concern for the law with managerial responsibility for ethical behavior. It refers to these approaches as *compliance-based* and *integrity-based*, respectively.

Control orientation – combining the two theories demonstrates that a coercive control system parallels a compliance-based approach whereas enabling parallels integrity accordingly (See: Stansbury & Barry, 2007). The resulting theory is referred to as control orientation, which mentions that ethics programs range from being compliance-based towards values-based. The former orientation embodies a coercive orientation towards control that emphasizes adhering to rules, monitoring employee behavior and disciplining misconduct (Weaver et al., 1999b). A values-oriented ethics programs emphasizes support for ethical aspirations and the development of shared values (Ibid). It is important to notice that these orientations need not be mutually exclusive. In fact, ethics programs may aim for internalizing values *and* compliance with rules, in order to prevent that organizational values are perceived as empty rhetoric (see: Trevino (1990) in: Weaver et al., 1999).

Several scholars examined the impact of differing control orientations on ethical behavior of organizational members. Theorists that preceded the perspective of control orientation are Adler & Borys (1996) and Paine (1994). The former discusses the impact of coercive and enabling control. It argues that coercive systems are merely designed to highlight to superiors whether the actions of employees are in compliance, rather than supporting the latter to determine whether processes are operating well. Such systems do not rely on employee skills for resolving contingencies. This is contrasting enabling control, which encourages employee responses. It is premised upon employees' comprehension of the processes being controlled (Stansbury & Barry, 2007). Enabling systems make processes visible "by explicating its key components and by codifying best-practices routines" (Adler & Borys, 1996: 72). Enabling control is able to respond effectively to contingencies. Though, it seems naïve to apply such an approach to organizations with high power asymmetry (Ibid). Here, coercive control is considered inevitable. Paine (1994) focuses on the impact of legal- and integrity-based compliance on ethical employee behavior. It points to the limitations of the former when it merely tries to prevent unlawful employee conduct with surveillance, control and by imposing penalties to wrongdoers.

Once the threats of detection and punishment are overemphasized in ethics programs, then this may run counter in attaining the desired behavior. Employees may rebel or become skeptical when ethics programs are perceived as *liability insurance* for senior management. “Even in the best cases, legal compliance is unlikely to unleash much moral imagination or commitment” (Ibid, 111). Integrity-based compliance is considered more robust as it is based on the concept of self-governance in accordance with a set of guiding principles. Paine (1994) states that the elements (i.e. formal controls) of an integrity-based approach are similar to the ones of its compliance counterpart. Both constitute business codes, training in ethics and law and reporting lines for misconduct. Though, the former aims to enable responsible conduct, cuts to the operating systems and guiding values and patterns of thoughts and action and requires an active effort throughout the organizations to define ethical responsibilities and aspirations (See: Paine, 1994). Reviewing these two considerations provides the conclusion that a values-based control orientation, if possible to apply, will lead to better ethical results.

While the preceding theorists provided theoretical considerations upon the impact of control orientation on fostering ethical behavior, only a few scholars attempted to test the relationship empirically. Trevino et al. (2006) considers that empirical research has been modest because of the difficulties of gaining permission to collect data on ethical and legal matters within organizations. Trevino et al. (1999) nevertheless tested which orientation is perceived most effective in attaining ethically desirable outcomes. It therefore surveyed 10,000 randomly selected employees from six large U.S. companies and it found an enormous impact of the approach to legal and ethical compliance on employees’ attitudes and behavior. It defined and tested four control orientations on seven ethically relevant outcomes and found an orientation towards values to be most effective. An ethics programs consisting of organizational values and of guiding employees to act on their ethical aspirations is perceived to deliver the best results. Also, Trevino et al. (1999) demonstrate that this approach can be supplemented with a compliance-based orientation. It is important to include accountability for violations of legal and ethical norms into an ethics program, as it creates fairness among employees (see: Weaver & Trevino (2001) in: Stansbury & Barry, 2007). Weaver & Trevino (1999) found similar results as to the impact of differing control orientation on employees attitudes and behaviors. It conducted a field survey in a large financial services company and again, the values-based orientation was perceived to deliver relatively more desirable outcomes. Weaver et al. (1999b) tested (i) environmental factors and (ii) management commitment to ethics as determinants for (a) the scope of ethics programs and (b) their control orientation. It found that both determinants had a positive and significant influence on the program its control orientation, though management commitment is regarded to have a bigger influence.

In addition, management commitment to ethics had a positive impact to the extent to which a program is values-oriented. In sum, Both Trevino et al. (1999) and Weaver & Trevino (1999) proved that a values-based orientation towards ethics is perceived to lead to more ethically relevant behavior. Both studies also mention that a compliance-based and values-based system need not be mutually exclusive. This means that values-based programs should retain some compliance elements (Stansbury & Barry, 2007). The study in Weaver et al. (1999) is less focusing on which orientation is perceived to have better results. But it proved that environment factors, such as management awareness of regulation, had a positive and significant impact on both orientations.

The above review on control orientation research showed that there is a shared understanding among scholars and practitioners as to the control orientation that is perceived to be superior. This section revealed consensus on the values-based system that it will lead to more ethically relevant behavior. As guiding ethics on shared values and ethical aspirations is unanimously acclaimed over enforcement using a compliance-based system, then it is likewise reasonable to consider that a values-based system will deliver more desirable ends within the thesis its particular context. This view is even more compelling if one confronts the behavioral implications of PBR, stated in section 3.3, with the theoretical and empirical insights provided here. Indeed, the earlier propagated concept of ethical compliance is mostly in accordance with the intentions of the values-based system to guide ethical behavior of organizational members. The values-based control orientation is thus the manner of interest for FIs, who intend to provide adequate response to the principle-based financial regulation that is consisted in WFT,

However, the control orientation need not be mutually exclusive. An ethics program may aim for both, the internalization of values and compliance with rules (Weaver et al., 1999b). This prevents that values are perceived as empty rhetoric and it creates fairness among employees. So, while the values-based control orientation is evidenced from PBR, it might be reasonable for FIs to add sanction mechanisms to their ethics program too. This leads to the conclusion that managers and employees of FIs need be provided with organizational principles to guide their choices. These should consist of values as adhering to moral, hence trustworthy conduct to those for which regulation is intended. Using values avoids the need for rules, which are potentially circumvented. Values also enable to make responsible choices in contingent situations. However, FIs may also want to apply sanction mechanisms since it reinforces the sense among organizational members to act in accordance with the values applied. Besides, it creates clarity that someone will be punished once values are compromised.

§ 3.5 Conclusion

The principle-based regulatory design is paramount in WFT financial regulation and confronts regulated firms with adherence to broad-based standard as opposed to complying with detailed rules. Broad standards express the outcomes they intend for subjects for which regulation is designed. This induces financial firms to think through how they are able providing proper substance to the imposed upon norms. As a consequence, PBR re-frames responsibilities from the regulator towards the regulated. Implications of PBR for guiding businesses of regulated firms towards desirable behavior is grounded on the assumption of coherence between what the regulator intends from firms and how they respond to these intentions regarding guiding behavior. Accepting this assumption allows defining ethical compliance as the appropriate manner for realizing desirable conduct. This concept means empowering, encouraging people to behave responsible by means of offering guiding principles. Exchanging compliance for control orientation theory shows that the values-based control orientation for guiding behavior is equivalent to ethical compliance. This orientation allows regulated firms to steer towards the desired behavior on basis of ethical aspirations and according to the application of guiding principles. Reliance on the values-based system allows mitigating compliance risk effectively.

Chapter 4 – Ethical behavior & Business codes

§ 4.1. Introduction

The foregoing of this theoretical section has ascertained the ethical behavior that is essential for adhering to financial regulation in the businesses of regulated firms. Chapter two defined trustworthiness as the concept of behavior that in particular responds to what WFT intends. The concern for trustworthiness is then assumed signaled by means of the indicators of trust. Currently, one has grasped the ethical behavior, which FIs should prioritize regarding behavioral control in order to mitigate compliance risk effectively. FIs may, however, have a variety of means to ensure that this essential behavior is upheld within their businesses (see: Lindsay et al., 1996). Despite the importance of each of these means, is this study limited to the application of business codes for attaining the essential behavior. Raising this delineation is a considered a fair thought. Indeed, business codes are increasingly critical components in the ethical infrastructures of firms (Schwartz, 2004). Here, the ethical infrastructure is conceived as the complex of formal and informal influences that controls unethical behavior and promotes ethical behavior (Tenbrunsel et al. (2003) in: McKinney et al., 2010). Other scholars as well impute similar importance to the use of business codes to exercise behavioral guidance. Hence, this provides the needed scholarly evidence to perceive the business code as the valid research object within this particular research context.

Until now, the behavioral efforts for mitigating compliance risk are appointed and similarly, the device is initiated that is used to shape these efforts. This chapter brings together these two concepts to explain the meaning that business codes may give to the ethical behavior. To this end, a structure is obtained from prior research that allows decomposing the content of business codes and eventually is the ethical behavior interpreted into the structure. Defining the structure for examining business codes simultaneously delivers the response to SQ6. But before one arrives here, some steps are carried out first. This chapter begins with elaborating on the business code both as theoretical concept and also as operational definition. This is offered in section 4.2. An extensive review on ethics code research is then provided in section 4.3. The latter leads up to a structure for decomposing the content of business codes. Defining the latter eventually offers the means to interpret the essential ethical behavior into the structure and hence, providing response to SQ6. The interpretation of the ethical behavior is offered in section 4.4 and finally, some concluding remarks are included in section 4.5.

§ 4.2. Defining the object of research

Business codes are apparently not new phenomena. One of the first scholarly sources on this specific topic is provided in Heermance (1924), as argued in Kaptein & Schwartz (2008). Benson (1989) then offers historical thoughts on the use of corporate codes. It acquired some evidence on corporations that adopted business codes in the 1960s and the 1970s. Chonko et al. (2003) sets forth the time series as it observes that corporations increasingly adopted codes throughout the 1980s and the 1990s (in: Stevens, 2008). It even mentions that most US firms are in the possession of an ethical code nowadays: "(it) has become a fact of life in today's business world" (Chonko et al., 2003: 237). As firms find it more or less common sense to implement a code into their businesses, it is likewise logical that many scholars conducted research on this particular device. Indeed, an extensive literature exists concerning corporate code of ethics (Mckinney et al., 2010). This extends from studying code differences across countries, studying code characteristics within specific industries to examining specific issues addressed in business codes (ibid).

As there are ample empirical studies on business codes (Kaptein & Schwartz, 2008), there are as well various definitions given to the research object. This may be justified in part, since business codes are almost as diverse as the organizations and the individuals that created them (Gaumnitz & Lere, 2002). Though, there is as well genuine confusion among scholars on the precise nature of a business code. This is partly created through the different names that have been used to refer to it (Kaptein & Schwartz, 2008). White & Montgomery (1980) applied 'code of conduct', Cressey & Moore (1983) 'code of ethics' and Schlegelmilch & Houston (1989) referred to it as 'code of practice' to name a few. As there are various definitions given to a quite a similar concept, it is regarded important to pay attention to defining this concept.

Even though many studies do not include definitions (Gaumnitz & Lere, 2002), this section will nonetheless develop 'business code' as theoretical concept and as operational definition. Here, it is argued important to define the object of research during this initial phase for the following, and more practical reasons. A solid definition ensures that only valid codes will be adopted in the research sample. Besides, it may offer guidelines for the structure that will be used for aggregating business code content. Primarily, the name 'business code' is adopted from Kaptein & Schwartz (2008), since it highlights the corporate level on which it has its intended purpose. The further delineation – added in this section – is evidenced from the particular roles a code may have in the context of research. Defining the theoretical concept passes into deciding the business code its operational attributes. The operational definition, in particular, secures that only valid business codes are gathered when collecting empirical data.

Roles for the business code

In defining the business code as theoretical concept, Kaptein & Schwartz (2008) provides an interpretation of *business* and *code*. While the meaning of the term *business* is not repeated here, it is relevant to explain the notion of *business*, as it has implications for delineating the concept. Firstly, *business* defines the ones that are subject to the code at the corporate level. “A business code, as a formulation of behavioral prescriptions for doing business (Brooks, 1989), is for all those people that makes the business work and run, which includes at least the management and employees of the company” (Kaptein & Schwartz, 2008: 113). The business code thus concerns each that represents a particular firm. Secondly, *business* implies that the code is not retained to any specific department. It prescribes in a coherent way behavioral items that are relevant for the company (Gaumnitz & Lere (2002) in: Kaptein & Schwartz, 2008). In sum, the business code impacts at least managers and employees and it extends to, and covers the complex of the firm its business activities.

The preceding theory already hinted that the business code should guide ethical behavior. Several scholars cite this particular function. Stevens (2008) mentions that codes articulate ethical parameters - what is acceptable and what not. Nijhof et al. (2003) notes that codes contain open guidelines promoting desirable behaviors and closed guidelines prohibiting certain behaviors (in: Stevens, 2008). Others, such as Cleek & Leonard (1998) and Lere & Gaumnitz (2003) discuss whether business codes really increase ethical decision-making. All these scholars appoint to business codes as guides for ethical conduct. Though, this particular function lacks some specificity. Indeed, the distinction between *a* code and any other document, constituted by a firm is not made explicit still. It is therefore relevant to provide more details on the roles for business codes.

Studies, as Frankel (1989), Stevens (1994) and Kaptein & Wempe (1998) all provide thoughts on the different roles for ethics codes. The latter two studies focus in particular on business codes and suggest that they fulfill *internal* and *external* roles. External, in the sense that business codes provide a basis for public expectation and evaluation (Gaumnitz & Lere, 2002). They may satisfy external criticism by transferring norms and values that are accepted in society to the concrete situation of the organization (Kaptein & Wempe, 1998). They may also function as legal barriers and self-defense mechanisms (Stevens, 1994). Despite the importance of these external needs, one is foremost interested in the code its internal roles, as it follows from the research context. To this, Kaptein & Wempe (1998) argues that a business code increases ‘moral resistance’: it allows resisting the influencing factors that may pressure the organization its ‘moral content’, which means, the efforts to fulfill responsibilities towards *stakeholders*.

Kaptein & Wempe (1998) thus state that codes articulate moral standards that should be upheld to fulfill stakeholder responsibilities. This offers relevant insight because it explains for whom ethical conduct is upheld to in the business. Though, the explicit, more functional roles that the code delivers when guiding towards the essential conduct, is not mentioned still. Frankel (1989) complements this, since it defines relevant roles that are captured frequently in business code studies (in: Gaumnitz & Lere, 2002). The following roles are identified and relevant in the context of research: *a* business code (i) provides guidance when an individual faces a novel situation; (ii) strengthens a sense of common purpose among organizational members; (iii) deters unethical behavior by identifying sanction mechanisms; and (iv) it gives support for individuals when faced with pressures to behave in an unethical manner.

The shape of the business code

Whereas *business* means that the particular device appeals to (and covers the) entire business of the corporation, has the term *code* consequences for how the vehicle is shaped. According to Kaptein & Wempe (1998: 855), is the particular term referring to 'codification', which is "the explicitation in laws of formal rules of behavior, which must be abided by". As to business codes, such a process usually results in a written text. This is considered fair, since practically each scholar finds it to be a written document (see: Cressey & Moore, 1983; Molander, 1987; Lefebvre & Singh, 1992). Kaptein & Wempe (1998) is somewhat more specific as to the particular shape of business codes. It mentions that the printed formalized document is in particular applied in large organizations that have multiple departments and a substantial number of stakeholders. A business code is regarded 'formal', when the board approves its existence. This formal status is, according to Kaptein & Schwartz (2008), an important premise for the code its *persuasiveness*; if the code applies to management and all employees, the board as highest corporate authority, should approve its existence.

In summary, this section has so far elaborated on the roles for and the shape of the business code. This results in the following definition of this theoretical concept. This definition is derived from Kaptein & Schwartz (2008: 113). *"A business code is a distinct and formal document containing a set of prescriptions developed by and for a company to guide present and future behavior on multiple issues of at least managers and employees toward one another, the company, external stakeholders and/or society in general"*.

Operational attributes and assumptions

Along the preparation of the theoretical concept, this section mentioned several characteristics that together comprise the operational definition of the research object. These operational attributes are highlighted below and, where necessary, complemented with assumptions.

Company-wide – the business code is independent of the individual that represents a financial firm. Nor is it sensitive for one single business activity or function that the firm performs. Codes that apply to one particular firm department, called 'departmental codes' in Ferrell et al., 1998a), are not regarded as business code. In addition, codes that address a singular issue, called 'vertical codes' in Gaumnitz & Lere (2004) *and* codes that appoint to one stakeholder, called 'stakeholder codes' in Kolk & Tulder (2002), extend beyond the scope of research.

Tangible & distinct – the business code is considered tangible and consists in a written text. The assumption is taken that codes gathered are similar to the codes that are implemented in the businesses of FIs in order to familiarize its members with code requirements (Wotrumba et al., 2001). Though, measuring code implementation extends beyond the scope of research. The business code is then argued to be distinct. Its intend is limited to the earlier defined roles and to the responsibilities expressing. Codes that treat matters beyond the defined scope, or so-called 'hybrid codes' in Stevens (1994), are excluded from examination.

Formal - the business code is argued 'formal' according to two complementary manners. According to its purpose to influence organizational behavior, the business code is considered a formal control analogous to that explained in section 3.4. It is *formal*, since it contains imposed requirements. Surely, codes may be created out of a collaborative effort involving many individuals at various corporate levels (Berenbeim (1999) in: Coughlan, 2005). However, managers and employees are nonetheless deemed to adhere to the requirements adopted in the code. This brings ones to the second interpretation of formal, meaning that the code should have 'board approval'. As one assumes that the gathered codes are implemented throughout the business, it is likewise reasonable to assume that they are somehow approved.

The above attributes may be considered as *cumulative criteria* when selecting business codes from the empirics. Business codes should at least be implemented company-wide, be tangible and distinct and should reasonably have a formal status within the financial firm. This section also highlighted content elements, such that codes contain of shared values, or that they refer to sanction mechanisms. These more content-related attributes do not raise restriction as to gathering business codes. As mentioned in the introduction of this section, scholars examined quite some variation in code content. So, if one excludes business codes, based on content elements, then one may not be able to observe variation that may be relevant for empirical inferences. It is therefore reasonable to not apply a too stringent selection framework up front.

§ 4.3. Business code content analysis

Empirical research in the field of business codes roughly centers on studies that (i) mapped the prevalence and content of codes *and* on studies that (ii) examined whether codes increase ethical behavior. Literature reviews on business code studies, as offered in Stevens (2008) and McKinney et al. (2010), expose that empirical research is broken into these two groups of studies. This section focuses on the former group, namely *business code content analysis* (BCCA, hereafter). This flows from the applied research design. Indeed, the research that will be conducted intends to measure the impact of business codes on mitigating compliance risk according to the content of the gathered codes. Therefore, this section draws on past BCCA studies with the purpose of taking notice on their use and applications, their research findings and in particular, on their applied structures for decomposing code content.

A definition on BCCA is found in Kaptein (2004). It considers it as a means that delineates the responsibilities that firms proclaim. "An analysis of the content of business codes reveals what kind of ethics companies claim to uphold" (Ibid: 15). Applying this ability to the research context, then BCCA enables exposing whether FIs uphold responsibilities for those for whom financial regulation is designed. This, in turn, enables to draw valid inferences on whether business codes intend to mitigate compliance risk. However, before one arrives at drawing conclusions, choices need be made as to decomposing the content of business codes. The purpose of this section is to develop the initial ideas for a structure that captures business code content. To do this, two groups of BCCA studies are compared: studies that conducted research within one industry and ones that examined codes across industries. This provides an insight on whether the design of BCCA influences the structure for decomposing content.

This section leads up to a general structure for examining business codes. Firstly, research findings are provided on studies that examine ethics codes within, and between industries. Secondly, analysis is offered on the subject items that are addressed in the two groups of studies. This gives some insights regarding differences between the groups of studies as to the subject items captured. The review then continues with examining studies on the variables, which measure values other than the code subject items. The insights acquired in this review eventually offer the motive for obtaining a structure for decomposing business code content.

Literature review on ethics code studies

This subsection offers findings on ethics code studies that (i) analyzed business codes across industries and (ii) studies that compared codes within a similar sector, all by means of some structure for aggregating the content of codes gathered. Both groups are eventually compared in order to determine which group of studies is likely more relevant for the research context.

Exhibit (6) Review of studies– The table below captures information on studies that performed content analysis on ethics codes. The relevant literature is broken down into two groups: the first covers BCCA research across sectors (6 studies), the second contains ethics codes research within sectors (4 studies). The literature references are obtained in the first column. The second column describes the object of research, added with a percentage of codes on which the research is based. The third column summarizes the variables examined, when conducting content analysis.

	Study		Object of research (in % of total)		Variables examined
STUDIES ACROSS SECTORS	Lefebvre and Singh	1992	75 codes of the Financial Post 500 Canadian companies.	15%	(i) general information, (ii) type of conduct addressed, (iii) enforcement and compliance procedures, (iv) penalties for illegal behavior.
	Farrell and Cobbin	1996	95 codes of an established database of 537 Australian enterprises.	18%	(i) general features, (ii) subject items (iii) rule / principle determination per item, (iv) amount of guidance per item.
	Snell and Herndon	2000	41 codes from a cross-section of the Hong Kong business- and industrial sector.	n/a	(i) content theme, (ii) inferred company motivation, (iii) moral appeal.
	Kaptein	2004	105 codes of the 200 largest corporations in the world.	53%	(i) stakeholder responsibilities, (ii) stakeholder principles, (iii) core values, (iv) internal conduct, (v) implementation, compliance, (vi) code profile.
	O'Dwyer and Madden	2006	142 codes of the 1,000 largest Irish companies.	14%	(i) issues impacting employees, (ii) issues impacting the company (iii) issues impacting the society.
	KPMG	2008	172 codes of the Global Fortune 200.	86%	(i) mission, (ii) core values, (iii) firm responisibilities, (iv) standards, rules.
SECTOR SPECIFIC STUDIES	Stevens *Hotel companies*	1997	42 codes of the 204 contacted hotel- and management companies in the United States.	21%	(i) conduct on behalf of the firm, (ii) conduct against the firm, (iii) ethical, legal basis.
	Preble and Hoffman *Franchise sector*	1999	A set of codes of franchise organizations covering a total of 21 countries.	n/a	(i) stages of franchise relationships, (ii) stakeholders, (iii) type and degree of ethical conduct, (iv) enforcement provisions.
	Farrell and Cobbin *Accounting organizations*	2000	79 codes of 120 national associations of accountants.	66%	(i) basic code features, (ii) aims, (iii) values, principles, (iv) decretal codes (rules), (v) mandated status.
	Tulder and Kolk *Sporting goods industry*	2001	A variety of 13 codes, all particularly relevant to the sporting goods industry.	n/a	(i) 'specifity' of issues addressed, - focus of codes, - measures used, (ii) compliance mechanisms.

The above table provides aggregate information on a set of relevant, oft-cited studies that have been conducted over the past two decades. The studies across sectors are added in the top part of the table and examine merely business codes. Hence, these are typically BCCA studies. The lower part of the table reflects on studies that examine codes within a particular sector. Aside from Stevens (1997), these studies involve different types of codes in their research. Both, Preble & Hofmann (1999) and Farrell & Cobbin (2000) rely on ethics codes of business associations. Tulder & Kolk (2001) examines codes of multiple entities that are relevant to the sporting goods industry. Considering the diversity of codes, included in the sector-specific group, it is reasonable to refer to them as 'ethics code studies'.

Reviewing BCCA studies across sectors, one notices that some are particularly geographically bound. Here, research is initiated since scholars ascertained limited knowledge on the use and content of business codes within the defined region. These studies have the intention to cover assumed research gaps by exploring what codes of firms in certain countries tell and by examining similarities and differences between them. Lefebvre & Singh (1992) particularly matches the latter. It performed a comprehensive study on business codes of Canadian firms and suggests that codes are remarkably similar and mainly concerned with protecting the firm instead of with social responsibility (Helin & Sandstrom, 2007). Similar research is conducted in Farrell & Cobbin (1996) and O'Dwyer & Madden (2006), highlighting the Australian and Irish business practice, respectively. The former study states that codes are inward looking and composed on a legalistic manner, as they contain a reiteration of legal obligations. The latter and more recent study provides quite frankly similar results. Irish codes focus on protecting the firm and employees instead of protecting the society. Remaining descriptive BCCA studies are found in Kaptein (2004) and once more in KPMG (2008). Both are quite similar regarding their intentions since they both study the world largest corporations. Kaptein (2004) focuses on the top 200 firms. It shows that codes describe company responsibilities for product quality and services, obeying the law and protecting the environment (Stevens, 2008). KPMG (2008) includes as well the top 200 firms. It observes great differences between codes but also a trend of converging content and hence, codes becoming less identical. Snell & Herndon (2000) assesses the effectiveness of Honk Kong business codes by means of multi-method research. Even though its study differs from the aforementioned, its examination of business codes shows nevertheless similar results since they show an emphasis on corporate self-defense. Referring to the sector-specific group of studies, then Stevens (1997) is relevant as it merely focuses on business codes. It finds hotel codes to be not very different from that found in corporate America. Preventing conflict of interest is seen as prominent code subject and finally, hotel corporations seem to use their code as well in a defensive way.

The above research findings provide the first motive for obtaining a structure for capturing the content of business codes and in particular, the subject items they address. It appears that the research that merely focuses on business codes is highly relevant for exploring code subjects. Remaining research that is based on ethics codes of industrial associations (instead of firms) appears to highlight less applicable issues. This is mainly due to that the latter codes are founded from a different context. So, whether studies are conducted within or between sectors is of neither concern for adopting a structure for capturing code subjects. What is relevant, however, is the type of code that is deemed as research object. The ideas to structure the amount of issues that codes address will therefore be obtained from the above BCCA studies. If one turns to the latter set of studies, one notices that the moral legitimacy of having a business codes has not changed much in the time considered. The majority of the reviewed studies reflect on codes as being concerned with the firm and its employees and less with other societal groups. Hence, these studies reveal no indication of a changing corporate attitude as to the constitution of business codes. This means that structures that were developed earlier are equally capable of capturing subject items of the more contemporary business codes and hence, each structure from the above studies may be potentially obtained.

The second motive for defining the structure for aggregating business codes stems from the variables that are examined, besides the variables that measure code subjects. It appears that many studies extend beyond capturing subject items and also, there is quite some similarity across studies on the variables that measure non-subject related values. A relevant recurring item concerns the enforceability and deterrence of codes examined. The analysis in Lefebvre & Singh (1992) devotes relatively much attention to this variable as it examines the references made to enforcement mechanisms and to the penalties for illegal behavior. A second recurring variable consists in measuring the amount of guidance offered by the code. The analysis in Farrell & Cobbin (2000) offers clear thought on this variable as it measures the amount of guidance of each captured behavioral requirement on a pre-determined scale. A third relevant item, recurring in many studies, is the dichotomy of rules and principles. This variable is highlighted in many studies, each on its own particular manner. A breakdown of rules and principles for each behavioral requirement is observed in Farrell & Cobbin (1996). Snell & Herndon (2000) offers a more sophisticated approach by measuring the moral appeal for all code items according to the six stages of moral reasoning of Kohlberg (1981). The studies mentioned here treat the non-subject related variables more or less in isolation. Though, there are a few studies that define and estimate 'the nature' of gathered ethics codes. Farrell & Cobbin (2000) classifies ethics codes as descriptive or inspirational, Kaptein (2004) uses code of conduct, stakeholder statute and values statement as relevant profiles for business codes and KPMG (2008) finds business codes to be either rule-based or principle-based.

The latter studies that estimate code nature appear to be particularly relevant for examining those dimensions of business codes that are less related to subject items. This is due to these studies accommodate codes in pre-defined classes by examining some set of underlying variables. These non-subject related values are measured jointly and, importantly there exists coherence between these variables since they jointly estimate the business code its nature. The structure for examining business codes will thus be capable of measuring a set of values that allows deducing the nature of the gathered business codes. Some further elaboration on code natures and underlying values, all in conjunction with the earlier defined control orientations, is offered in chapter five.

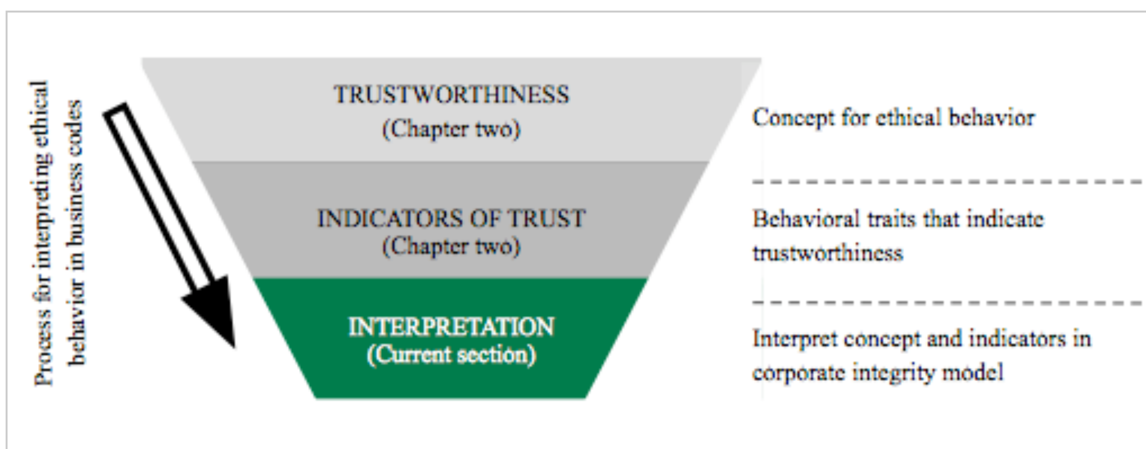
Currently, ample studies are considered on the topical issues that business codes cite and also on the variables that measure values that are less related to topical issues. Hence, a sufficient basis is laid to obtain a proper structure from prior research for examining business codes. Reflecting on these structures, then it seems that two frameworks are regularly applied in prior research. Lefebvre & Singh (1992) and Stevens (1997) derived the coding structure from Cressey & Moore (1983) and Mathews (1987). This framework is perceived as quite robust as many scholars applied and it is still being used. Another structure, which is observed twice, is the one that is derived from the corporate integrity model (Kaptein & Wempe, 2002). The analyses of Kaptein (2004) and KPMG (2008) are both inspired on this model, which roughly assumes that code content may be accommodated into four layers. Content refers to or expresses (i) corporate mission, (ii) core values, (iii) responsibilities to stakeholders and, or (iv) standards and rules. Despite the robustness of the former framework, is decided to use the corporate integrity model as the standard for examining business codes. The model is appealing, as it rules out any presumption on what business codes should contain. In fact, it may cover all contingencies that may be observed when exploring content. Second, it fits the defined theoretical context on business codes particularly well as it emphasizes responsibilities that need be uphold towards stakeholders. Finally, the model is argued to be a really adequate preparation for estimating natures of business codes as it considers rules, principles and values independently. The corporate integrity model is further elaborated in the following section and complemented with an interpretation on the ethical behavior that ought be measured for mitigating compliance risk effectively.

§ 4.4. Interpreting the ethical behavior

This section departs from the corporate integrity model, since it is argued the framework that will be applied for examining business codes. Along exploring subjects that business codes address, is the research particularly intending to determine whether FIs claim to uphold ethics in their codes that point to the underpinnings of the WFT financial regulation.

Capturing these references allows drawing inferences on whether compliance risk is mitigated by means of applying business codes. But, before being able to deduce this essential behavior, some theoretical consideration is carried out. This process of developing theory is explained as a three-step procedure. Here, the initial step concerns the ethics that are underpinning the applicable regulation. Then, is intended to develop a set of constructs that allow indicating the attention to the essential ethical behavior. This completes the second step in the process. The theoretical consideration has so far yielded the behavior as well as the underlying constructs. Both are handled in chapter two. *Trustworthiness* is seen as the essential concept of behavior. This is assumed signaled in behavioral properties of openness, integrity, benevolence and competence. The theoretical consideration is not completed still. This section responds to the third step in the process by presuming the appearance of the ethical behavior in business codes. This means that trustworthiness and the accompanying indicators are interpreted into the corporate integrity model. But first, two studies are reviewed that examine business codes on specific issues. This may offer guidance for presuming the appearance of specific issues. Finally and depending on the insights acquired, the ethical behavior shall be interpreted in the corporate integrity model.

Exhibit (7) Theoretical consideration – The figure depicts the theoretical process prior to being able to deduce from business codes the ethical behavior underpinning the WFT financial regulation. This process is an exercise of delineation and offers means for interpreting this essential behavior into the corporate integrity model. This latter step is taken in this section. The task at hand is to gather insights from prior research on presuming the appearance of specific issues in business codes and to apply them for interpreting the ethical behavior in business codes. This particular step in the process is referred to as ‘interpretation’, as shown in the lower box in the figure.



Defining specific issues in business codes

Among a small extent of research that examines ethics codes on specific issues, two studies are selected and elaborated further. Blodgett & Carlson (1997) and Gordon & Miyake (2001) examine issues that are related to *liability prevention* and *international bribery*, respectively. This subsection departs from Blodgett & Carlson (1997), which examines business codes on their application of preventing legal liability.

Focusing on this application, then it appears that this study has some affinity with examining business codes as means to mitigate compliance risk. In fact, preventing legal liability may be explained as mitigating compliance risk because the latter also averts that legal duties, that point to agreed-upon financial services with clients, become violated. According to the research context, legal liability is assumed prevented as long as FIs ensure that the ethical behavior is upheld in the business. This proves the similarity between 'business code as application for legal liability prevention' and 'business code as means to mitigate compliance risk'. Blodgett & Carlson (1997) motivates the importance of liability prevention for firms and particularly since it transcends applicable laws. This equals the earlier statement of not only complying with the letter but also with the spirit of the law. The study continues providing knowledge on legal duty and confirms that it is grounded on negligence theory. Eventually is argued that negligence should be included in codes, particularly because it is not appearing in prior research. Even though Blodgett & Carlson (1997) argue the importance of negligence for liability prevention, it does not presume the appearance of negligence in business codes. In fact, it neither translates the concept of negligence into factors that are captured more ambiguously in business codes. The conclusion is therefore that Blodgett & Carlson (1997) defines negligence no further than the initial step in the three-step theoretical process. Hence, this review continues with taking notice on Gordon & Miyake (2001), which examines the approaches of commitment to combating bribery, which are included in business codes. Here, difficulties are encountered with framing anti-bribery commitments. It notices problems with defining bribery according to the economics literature. Besides, there are found little internationally accepted anti-bribery principles on which firms might draw in formulating commitments for their business codes. Even though Gordon & Miyake (2001) elaborates on the difficulties faced, it does not anticipate by means of developing some kind of proprietary manner for framing commitments to combating bribery. Instead, it measures relevant references during the analysis and it aggregates one another afterwards. Again, there is the conclusion that the appearance of bribery in business codes is not presumed.

The above literature review provides the insight that it is not quite a scholarly practice to define specific code subjects in advance in order to deduce them, by means of examining business codes, subsequently. In fact, the theoretical consideration that is developed so far, already reaches beyond to what is observed in the above studies. This leaves one with the assumption that prior research is likely not offering guidance for presuming the specific issues that are to be captured in business codes. Interpreting the appearance of the ethical behavior in business codes is therefore considered as quite a novel scholarly practice. The remainder of this section sheds light on how the ethical behavior is interpreted into the applied structure for business codes, i.e. the corporate integrity model.

Interpreting ethics into corporate integrity model

To presume the appearance of the ethical behavior in business codes is once again referred Kaptein (2004) and KPMG (2008). Both studies suggest that the content of business codes is possibly accommodated by means of the corporate integrity model. While this particular model is initiated in Kaptein & Wempe (2002), is decided not to consider the latter literature here as the former two studies both approached it for examining business codes specifically. Comparing the interpretation of the corporate integrity model in these studies, there are few differences noticed. KPMG (2008) decomposes business codes into four different layers, similar to section 3.4. The decomposition in Kaptein (2004) argues that business code content is possibly appearing in five layers. It may refer to or express (i) core values, (ii) stakeholder principles and (iii) responsibilities, (iv) internal employee conduct and (v) implementation and compliance. The latter layering of business codes is presumed more appealing in the context of research. The structure is firstly less general and more responding to the code its purpose of guiding organizational behavior. Secondly, it is assumed that the structure offers proper means to measure dimension other than code subjects, since it adequately allows inferring such values from how the structured content is divided over the different layers. Further elaboration on the corporate integrity model according to Kaptein (2004) is provided in the remainder of this section.

Exhibit (8) Interpreting behavior – The table below offers theory on constituent parts of the corporate integrity model and it also shows the assumptions on the appearance of the ethical behavior within these parts. Contrary to the five layers mentioned in Kaptein (2004), shows the table only three. Hence, the essential behavior is assumed expressed in references, which are defined as core values or as stakeholder responsibility or principle.

CORPORATE VALUES	
DEFINITION	Corporate values refer to the qualities that a company deems desirable and which should ground all business conduct and outcomes (Kaptein, 2004).
CODE INTEPRETATION	Codes may highlight their societal role of bridging information asymmetries. In that sense, they may central the concern for being and maintaining trustworthy in particular towards consumers in order to preserve an efficient financial sector.
STAKEHOLDER RESPONSIBILITIES	
DEFINITION	Values can be translated into responsibilities, which the company believes it has towards its stakeholders (KPMG, 2008).
CODE INTEPRETATION	Responsibilities are pointed to consumers of financial services. In order to bridge information assymetry adequately, they should be provided with adequate services and efficient information in order to make appropriate decisions accordingly.
STAKEHOLDER PRINCIPLES	
DEFINITION	General requirements for company and employee conduct. They govern the relationship between the company and stakeholders (Kaptein & Wempe, 2002)
CODE INTEPRETATION	The indicators that are constituent to trustworthiness are expressed as principles that are uphold towards consumers. This is reflected in references to openness, integrity, benevolence, competence (or statements of similar nature).

Behavioral requirements that are underpinning the WFT financial regulation are presumed to particularly appear in three of the five constituent layers of the applicable decomposition of business codes. The ethical behavior is considered captured in references that are deemed either as *core value, stakeholder responsibility* or as *stakeholder principle*. The interpretation extends and is limited to these layers as they clarify conduct on behalf of the firm instead of towards the firm (Mathews (1987) in: Kaptein, 2004). The requirements, added in these three layers, have the ability to express, in a coordinated manner, what is expected of organizational members on how they conduct businesses with their costumers. This, in turn, may respond to what financial regulation intends from regulated firms. Including references to trustworthiness into the aforementioned appearances thus enables merging business code requirements with the ethics that need be upheld and hence, allows FIs to mitigate compliance risk.

The remaining two layers are presumed less likely for expressing requirements that point to the ethical behavior. This flows from the definitions applied: internal employee conduct refers to what is expected from organizational members in their engagement with one another and their treatment of organizational assets (Kaptein, 2004). This layer specifically captures the extent of requirements that promotes or prevents that the firm its interests are respected or compromised. The layer that is labeled 'implementation and compliance' is furthermore not likely capturing any references to the ethical behavior in a direct manner. Indeed, it captures the commitment to, and the monitoring of compliance with the code. While these latter two layers are presumably not clarifying the ethical behavior, it does not mean that they are not important for attaining that the ethicall behavior is upheld in the business. In fact, they may be equally or more important. Though, they are not likely expressing the examining subjects.

§ 4.5. Conclusion

The business code is argued as critical component critical component of ethical infrastructures of firms and likewise of financial firms. This vehicle is defined as distinct and formal document that includes behavioral requirements to guide behavior of at least managers and employees towards one another, the company, its stakeholders and society. Prior studies that examine business codes their content imply that constituent requirements appear at various informational levels. Several scholars suggested structures to account for the informational nuances that codes offer. An examination of these efforts provides proof that the structure, based on the corporate integrity model, is likely best applied. Defining this structure, in turn, enables interpreting the ethical behavior that is essentially present in business code in order to confirm its application for compliance risk mitigation. Awareness for providing adequate financial services and exposing trustworthy behavior towards consumers typically appears as values and responsibilities. The qualities integrity, openness, benevolence and competence are assumed appearing as principles.

Chapter 5 – Control orientation & Business codes

§ 5.1. Introduction

The final phase of theory is unfolded in this chapter and relates the defined control orientation to the business code as application for mitigating compliance risk. It is argued in chapter three that a values-based control orientation is closest to the intents of the principle-based financial regulation of WFT. The values-based system evokes desirable behavior through propagating positive and ethical aspirations. It facilitates managers and employees with values and guiding principles, inducing them to conduct businesses responsibly. While reliance on values-based elements is argued effective, it is as well reasonable to reinforce the importance of adhering to behavioral requirements by means of sanction mechanisms. The former chapter then hinted that business codes are likely expressing different control orientations. It suggests that codes cover variations that extend beyond subject items addressed. They as well expose variation in the amount of guidance expressed, their level of enforceability and deterrence and also, in the composition of rules and principles. In all, the theory has so far offered guidelines that allow expanding the above-stated relationship. This enables to determine how the defined control orientation is ideally reflected in business codes and how this is measured accordingly.

This chapter is built around the theoretical perspective of business code effectiveness and in particular, effective code design. Needless to mention, the business code is argued an a priori means to effectively mitigate compliance risk. As a consequence, measuring whether codes really improve ethical outcomes extends beyond the scope of research. It is endorsed however that the impact of business codes on compliance risk mitigation depends on the consistency of its design with key elements that follow from the defined control orientation. This chapter thus leads up to a 'code design determination' that reflects the latter adequately and hence, offers response to SQ7, which is the final sub-question. To arrive here, this chapter is outlined as follows: section 5.2 introduces the scholarly discipline of measuring the effectiveness of business codes, leading up to reflecting upon its state of affairs. Section 5.3 proceeds with an elaboration on effective code design. This results in the definition of key elements for code design that are consistent with the intents of the values-based control orientation. Section 5.4 builds on the latter key elements and selects a subdivision from prior literature that adequately covers the code designs that are to be measured when examining business codes. Developing the design for a business code that reflects the values-based orientation, offers the response to the research question that is central to the chapter. This is once more concisely described in the concluding section, 5.5.

§ 5.2. Business code effectiveness

The theory has meanwhile suggested that the empirical research surrounding business codes is roughly divided into two branches. There is the division that concerns mapping the messages that codes convey. Then, the remainder is about examining the effectiveness of codes applied. Chapter four offers an extensive consideration on the former, i.e. content analysis studies. This section proceeds with reflecting on research that concerns examining code effectiveness. Helin & Sandstrom (2007) refers to this as output-oriented studies because they measure the influence of the business code on the behavior of those, which the code intends to impact. The enquiries on effectiveness of codes therefore share testing the correlation of the application of such vehicles in the business environment and the formation of 'more ethical' behavior. This research thus predominantly leans on quantitative research methods (ibid). This section offers familiarity concerning code effectiveness studies. It elaborates on the different methods that are applied for examining whether codes produce more ethically relevant behavior. Means that are reviewed entail measuring ethical outcomes using vignettes as well as measuring the perceptions about practice. Attention is then provided to the conceptual reasoning regarding code effectiveness. All this provides the preparation for determining the state of affairs on empirical research on code effectiveness. The latter is regarded the conclusion of this section.

Literature review on code effectiveness studies

Several methods are applied to test whether business codes result into more ethically relevant behavior. Kaptein & Schwartz (2008) offers a fairly adequate presentation of these methods. While it is not meant to treat each of these manners, some are nevertheless briefly highlighted for the purpose of providing clarity. The first method that is mentioned occurs, among others, in Cleek & Leonard (1998). This particular study assesses whether business codes promote ethical decision-making, by means of a survey instruments that was subjected to two groups of business students. Here, one group is treated with a business code and the other is deemed as the control group. The students were requested to respond to the vignettes that consisted in the survey instrument. A vignette is considered as an ethical dilemma that necessitates ethical decision-making. Cleek & Leonard (1998) found ethical preferences of the treatment group to be not significantly different from the preferences of the control group. Hence, it concluded that codes are not influential to ethical decision-making behavior. Marnburg (2000) as well applied vignettes for empirical inferences. Here again, the conclusion is drawn that codes are likely not having an impact, because both groups did not respond differently to the dilemmas presented (Kaptein & Schwarz, 2008). Another and rather commonly used method relies on the perceptions of respondents on whether business codes are impacting their behavior. An oft-cited example here is Adams et al. (2001). This study surveyed 766 members of the U.S. working population (Kaptein, 2011). It found that respondents from firms with codes rated

top managers, supervisors, peers and themselves as more ethical than respondents from firms without codes (Carasco & Singh, 2003). Besides, respondents of firms with codes rated company support for ethical behavior higher and also expressed higher levels of satisfaction with outcomes of ethical dilemmas they had faced (ibid). Furthermore remarkable is that the mere presence of a code is found to have a positive impact on the perceptions of behavior. This is confirmed even when respondents were not able to recall the code content. Contrary to Adams et al. (2001) provides Farrell et al. (2002) less positive outcomes. The latter study uses responses of 545 employees and 25 managers of eight large Australian companies in a case study design. The perceptions of respondents indicate that business codes are ineffective. Among other results that the analysis yielded, Farrell et al. (2002) suggests that the strongest ethical culture affecting the behavior in these companies comes from a shared, external environment. The study did not identify the source, however. So far, this review highlighted studies that test the correlation between the mere presence of business codes and the ethical decision-making of code receivers. This research design may ignore that someone actually chooses an action that a business code possibly indicates even when that code absent. Lere & Gaumnitz (2003) point this particular concern. Here, the scholars consider the business code to be effective, unless it leads the decision-maker to select an action other than the one it would have chosen in the absence of the code (Coughlan, 2005). Given the definition raised, Lere & Gaumnitz (2003) reason whether codes are likely resulting into better ethical actions, using information economics literature. Eventually, it argues that the impact of a business code is marginal.

This section reflected on different studies as well as different methods for research. Besides, it highlighted differing conceptual views on code effectiveness. Likewise, the reviewed studies seem to have different opinions on whether business code application is effective. These results exemplify the thoughts that are stated in Kaptein & Schwartz (2008). Here, a large amount of code effectiveness studies is critically examined and it shows that existent research provides conflicting results. Even though it may be that there is a large variation in the actual value of codes, the scholars nevertheless scrutinize the nature of assembled studies and identify multiple sources that may cause variation as well. It seems that scholars apply different definitions for seemingly similar concepts and also, entitle different purposes to codes to attain. It moreover suggests that there is sufficiency in empirical bases and also, there is a great variety in research methods. Kaptein & Schwartz (2008) proposes an integrated method for future research, which allows capturing code effectiveness less ambiguously. Still, one is left with puzzling considerations on whether business codes actually improve ethically relevant behavior. Though, further discussion extends beyond the theory scope. This chapter therefore proceeds with offering theoretical considerations on effective code design.

§ 5.3. Effective code design

The former section reflected on the state of affairs on business code effectiveness research. It concluded that the variation in research findings could not undoubtedly be conceived at face value. This subsection begins with raising an additional concern as to testing the correlation between the mere code presence and the ethical decision-making of code addressees. Unlike Adams et al. (2001), which suggests that code existence positively impacts perceptions on behavior, amounts a code *per se* not necessarily to its effectiveness. Indeed, the business code as effective application is not only determined by its existence (Kaptein, 2011). This view is amongst others derived from Cooper (1990: 8). It mentions: "a code of ethics cannot make people or companies more ethical, but nor can hammers and saws produce furniture. In both cases they are necessary tools that need intelligent design and use". Kaptein (2011) opposes to the use of code existence as the only explanatory variable. It therefore develops and examines five additional determining factors that pertain to intelligent design and use. These are related to (i) code communication, (ii) the quality of communication, (iii) code content and the embedment of codes by (iv) senior and (v) local managers. Schwartz (2004) has a similar view on code effectiveness examination. Besides taking into account code existence, it as well considers the influence of code content and code process on perceptions of ethical behavior. Here, code process implies the creation, implementation and the administration of the vehicle.

Theory adheres to the idea that the effectiveness of business codes is not merely determined by the establishment of codes in businesses. Despite the importance of all the constituent tools that together pertain to effective design and use, focuses this section on the key elements that relate to code content. This delineation follows from the research context, which implies examining the control orientation according to the content of codes gathered. Measuring the elements that relate to the control orientation that is congruent with behavioral implications of PBR, provides evidence on business codes as effective application for mitigating compliance risk. Though, before being able of defining these content elements, the literature scope should be defined first. This section thus reflects on research within this specific domain to determine what codes are capable of in terms of effective content elements. This eventually results in the establishment of a set of parameters and values that are key to the values-based orientation.

Defining the scope of code content elements that relate to effective design and use begins with offering an overview of sources that provide suggestions for effective content to include in codes. This literature is roughly divided into studies that merely reason elements that are key to creating ethically relevant behavior and studies that empirically examine if certain design parameter values lead to more desirable outcomes. The research, which is constituent to these two groups, is treated in two separate literature reviews below.

Exhibit (9) theory on effective code content – the table offers aggregate information on four studies that considered the effectiveness of business codes according to their content. The first column shows the references to the study. The second column mentions content elements on which recommendations are offered.

THEORETICAL STUDIES ON EFFECTIVE CODE CONTENT		
Study		Content elements (argued)
Molander	1987	(i) review of law, (ii) specific practices, (iii) general precepts.
Raiborn & Payne	1990	(i) clarity, (ii) comprehensiveness, (iii) enforceability.
Kaptein & Wempe	1998	Eight dilemmas raised concerning content parameters.
Lere & Gaumnitz	2007	(i) Subject of message, (ii) Delivery of message.

Theoretical – many of the above literature arises from the determination of certain difficulties or dilemmas as to composing an effective business code. Molander (1987) highlights the dilemma stemming from the inclusion of subject matters that are stated as general precepts or as specific practices. Raiborn & Payne (1990) as well identifies multiple difficulties in the code design process. Among these, it mentions that codes may be perceived as touting and may cause suspicion when employees feel that there is an implication that someone is doing something wrong. In addition, Kaptein & Wempe (1998) defines twelve Gordian Knots to code development and eight of these knots are related to content. Many of the above studies provide awareness to the dilemmas raised and hence, are pointed to practitioners who wish to design code for their businesses (Cassell et al., 1999). Given the focus group of the above literature, many studies do not offer specific reasoning on how code elements are perceived by code receivers. Then, there is a concern, linked to the absence of a common framework for effective code content, which means that there is neither a one-size-fits-all solution. This is confirmed in Raiborn & Payne (1990). It mentions that each code should represent the corporate culture from which it stems. In all, defining effective content elements is not merely a straightforward and unambiguous matter. Though, it is nevertheless possible to obtain, from the studies assembled, some elements that are complementary to the values-based orientation for guiding organizational behavior. These are discussed in the remainder of this review.

This theoretical review elaborates on content elements that are argued in the above studies. To determine their effectiveness, these elements are calibrated along quality characteristics that are cited in Raiborn & Payne (1990). It argues that business codes should be clearly stated. This refers to the absence of ambiguity, doubt or vagueness. Codes should be comprehensive, which means covering virtually any conduct. Finally, a code must be enforceable: specific direction for expected behavior is stated and also, punishment once this behavior is violated.

Subject matters obtained in business codes are stated as either values or rules. This is referred to in Molander (1987) as general precepts and specific practices, respectively. Here, it is once more considered that the benefits of values are the flipside of disadvantages of rules and vice versa. A business code that solely contains of one of the two is thus likely not effective. This is proven in Molander (1987), which state that values give the code its ethical foundation and vitality, while rules are useful as that they bring down the code to the real world of businesses and give it its bite. While both statement levels are necessary in codes, an emphasis should be put on values at the expense of rules. Unlike Kaptein & Wempe (1998) that acclaims rules for providing clarity is assumed that rules and values are equally clear. This is confirmed in Lere & Gaumnitz (2007). Here, it is argued that the clarity of a code position is foremost dependent of the preciseness of the statement. Then, values are widely accepted for being responsive to an innumerable amount of situations (Raiborn & Payne, 1990). This contrasts rules who may be evaded (Kaptein & Wempe, 1998). Besides, rules are inflexible and they might be inapplicable to cover a wide variety of situations (Molander, 1987). Finally, while some believe that values are less enforceable than rules (ibid), it is nevertheless argued in Raiborn & Payne (1990) that enforceability is not so much concerned with mechanisms applied; what is relevant is the consistency between the level of ethics that is designated in the firm and the degree of enforceability applied.

The next design parameter concerns code specificity. While Raiborn & Payne (1990) states that codes should stress basic societal values, does Lere & Gaumnitz (2007) encourage including positions in codes that are not apt to be generally held in society. For defining an effective business code is adhered to the latter, which means that they should have specific content. Indeed, the adoption of values that are generally held in society are also likely to be held by code receivers (ibid) and hence, do not offer any additional value in business codes. Thus, unless FIs obtain values in their code that relate to trustworthiness, it would be adequate that these values are supplemented with explanations on how they guide ethics in specific situations that are relevant for the decision-maker.

A highly discussed design parameter concerns the tone of a business code. Molander (1987) is rather explicit and states that codes may cover statements as 'thou shalt' and, or 'thou shalt not' that refers to positive and negative statements on expected behavior. Kaptein & Wempe (1998) as well focuses on code tone. It argues that negative terms are possible perceived as threatening. Though, positive terms are difficult to verify if they are abided by and do not offer the means for imposing sanctions. While it is intuitive to acclaim positive terms for codes due to its consistency with the earlier argued reliance on values, one is not clear on its effectiveness. This is because the above literature is not providing redeeming answers here.

The review of theoretical consideration on effective code content closes with highlighting the emphasis of the code. Business codes may, according to Kaptein & Wempe (1998), describe responsibilities towards the company as well as responsibilities towards stakeholders. Here, it is once again necessary to aim for balance in emphasis. Nevertheless, the business codes of FIs should be keen on emphasizing the responsibilities towards those for whom the financial regulation is designed. This enables FIs to address the underpinnings of WFT and allows the business code to be effective as application for compliance risk mitigation. Nevertheless, the responsibilities to stakeholders that are dependent of financial regulation need be translated to specific situations that are tangible for code addressees in order to be able to alter behavior.

Exhibit (10) empirics on effective code content – four studies are assembled that empirically determine whether codes are effective according to their content. The first column shows the reference to the study. Empirical data on which inferences are drawn is shown in the middle. The third column mentions content elements examined.

EMPIRICAL STUDIES ON EFFECTIVE CODE CONTENT			
Study		Empirical basis	Content elements (examined)
Farrell & Farrell	1998	5 business codes of Autralian firms.	language to restrict or empower employees.
Kolk, Tulder, Welters	1999	132 codes of conduct drawn up four differnt actors.	(i) specifity, (ii) compliance or enforcement mechanisms.
Schwartz	2004	57 interviews within four Canadian firms.	(i) justification for subject matter, (ii) examples, (iii) tone, (iv) length and (v) relevancy.
Kaptein	2011	survey on 2390 adults employed in >200 firms.	explanatory variable 'number of subjects added in the code'.

Empirics – examining the effectiveness of business codes according to their content appears to be subject to various approaches. This is shown in this review as it reports on above studies on elements including definitions on code effectiveness and content elements considered, the research methods and empirical findings. The first is Farrell & Farrell (1998), which believes that effective codes guide addressees in providing the right response to situations of moral hazard. Codes therefore include operational definitions so that abstractions are made concrete. Though, addressees should also become empowered to make their own ethical decisions since codes are practically unable to cover all situations with definitions. The scholars test the possible practical effects of business codes using linguistic analysis that is applied to codes of five Australian enterprises. It finds that codes rarely contain operational definitions. From this, it infers: "(…) addressees constitute the locus of ethical decision making (…)" (ibid: 578). Even though the absence of definitions provides discretion to addressees to make their own ethical decisions are codes authoritatively written and hence, this restricts empowerment. Farrell & Farrell (1998) eventually point the awareness that contradictory linguistic messages infringe the business code as effective application.

Kolk et al. (1999) perceives code effectiveness as the likelihood that code receivers comply with requirements contained. Whereas Farrell & Farrell (1998) believes that business codes should cover 'language to empower' defines Kolk et al. (1999) the elements 'code specificity' and 'enforcement mechanisms' as crucial to "the probability that firms will conform in practice to the code" (ibid: 153). The study is rather clear on the former-mentioned parameter. It argues that specificity improves measurability, which in turn enhances monitoring. Enforcement mechanisms are divided into five factors. Among them, it argues that the use of monitoring systems, the position of monitoring actors and the application of sanctions are important factors. While the study of Kolk et al. (1999) is worth mentioning due its distinctive view on code effectiveness are the empirical findings less applicable. First, it examines ethics codes of four different actors and also, it has an empirical focus on transnational corporations. The review therefore continues with Schwartz (2004), which examines the perceptions of code receivers on the effectiveness of multiple elements related to code content and – process. The empirical research offered addresses a research gap, which stems from two interrelated observations. Schwartz (2004) questions existent empirical research regarding the use of 'code existence' as the mere explanatory variable. Furthermore, the studies that expand reasons for effective codes seem to deliver only prescriptive recommendations or anecdotal evidence at most. Schwartz (2004) assembles a large amount of scholarly works to identify all possible elements that allegedly contribute to code effectiveness. It then tests whether code receivers support the recommendations from prior literature by means of conducting 57 semi-structured interviews with code receivers at different hierarchal levels. It is not reasonable to treat all inferences drawn but what is remarkable is that respondents expect their code to be negatively stated in order to be effective. This is quite remarkable, as recommendations point that codes should have a positive tone. Though, Schwartz (2004) is not providing any counts to support its empirical claim, which leaves one with puzzling thoughts on what tone codes should have. It is therefore meaningful to continue with Kaptein (2011), as it is the only study considered, which assesses the effectiveness of content on quantitative means. This particular study tests (in addition to code presence) the effect of five determining factors on the extent of observed unethical behavior in the workplace. Among these factors, it tests the hypothesis that content quality negatively impacts observations of unethical behavior. Here, code quality is measured according to the number of issues addressed in a code. Kaptein (2011) gathers data by means of a survey that is conducted on more than 3,000 working adults. The findings demonstrate that there is a significant negative impact of content quality on observations of unethical behavior. Though, the variable appears to be insignificant in the full model, which explains 32 percent of the variation in observed unethical behavior. Hence, whether content quality contributes to code effectiveness remains quite unanswered. On the other hand, the applied measure may be doubted since it is solely based on the number of subjects obtained.

In summary, this review reflects on both, theory and empirics to define what business codes are capable of in terms of effective content. Theory yielded two understandings. First, there is not a single code design that appears to be more superior to another. The reasoning on content elements proves that the quality criteria as offered in Raiborn & Payne (1999) are neither jointly compatible. Thus composing an effective code entails finding adequate balance in the content elements considered. Second, there is the assumption that the design of a code should reflect the corporate culture from which it stems. The theory review therefore leaves ones with the understanding that business codes are not simply assessed on the application of a common framework for effective design. Rather, theory assumes that each code should be assessed on its own particular merits to decide whether it is effectively composed. The empirics review is then also unable to provide more clarity, in particular due the divergence of considered studies. In general, proof on effective code design, which is supported by data, appears to be scarce and the existent studies provide here and there findings that contradict the theoretical recommendations. In all, it appears that more scholarly attention is needed in order to create more consensus on content elements that pertain to effective code design.

While examining code effectiveness according to content appears to be subject to a number of complexities is it nonetheless possible to measure the values-based control orientation that is consistent with the regulatory design of WFT. In other words, measuring whether business codes are effective applications for compliance risk mitigation remains intact. The theory review already offered recommendations for the argued design parameters. This section closes with a brief overview of these considered elements. This is provided in the table below.

Exhibit (11) Key design parameters and values – the review of studies on effective code design delivered some content elements that appeal to the values-based orientation, which is the defined manner for guiding behavior in response to the regulatory design of WFT. Adherence to these elements may enable FIs to apply a code as effective means to mitigate compliance risk. The first column states the considered parameter. The corresponding value is added in the second column, which is completed with a brief motivation in column three.

PARAMETER	VALUE	MOTIVATION
Subject matter	Inspirational / Values	*Codes should predominantly lean on principles that offer guidance in order to do business dealings on a trustworthy manner.*
Tone	Descriptive / Positive	*In extension to the reliance on values should codes be descriptive and requirements be positively stated.*
Generality	Specific	*Statements on openess, integrity, benevolence, competence should be complemented with specific references for dealings with actors for whom financial regulation is designed.*
Emphasis	External	*Importance should be stressed on the adherence to behavior in the interest of actors for whom the financial regulation is designed.*

§ 5.4. Defining business code types

The outcome of the former section mentioned that business code effectiveness, according to its design, is not unambiguously determined. More scholarly effort is therefore suggested in order to provide more proof on the effectiveness of the complex of content elements argued. Without ignoring the omission considered, it does not raise any concern for the research to be performed. Determining the effectiveness of codes gathered will not be solely based on the presence of some generally agreed-upon elements. Indeed, it is argued that the effectiveness is foremost dependent of the consistency between the elements, which are present in codes and the characteristics that are key to the values-based approach for guiding behavior. Currently, the relevant attributes of the values-based orientation are argued and some parameter values are as well defined in the former section, which adequately reflect this orientation in business codes. The final step of theory thus consists in obtaining from prior literature a decomposition of code types, of which one is well connected with the parameter values defined.

This section draws on literature of code types that is provided in Farrell & Farrell (1998), Farrell & Cobbin (2000), Kaptein (2004) and in KPMG (2008). The breakdown of considered code types is briefly reviewed with the end of defining a breakdown that is consistent with the dichotomy between the compliance- and the values-based control orientation. This section closes with a description of content elements that are constituent to the code types selected.

Prior to the elaboration on different code types, it is considered that business codes should be designed on a consistent manner, regardless of the code type on which the composition is drawn. This is derived from Farrell & Farrell (1998) since contradictions in code messages infringe code effectiveness. Kaptein (2004) complements this as it recommends for codes to be consistent. It states: “most codes are unclear about the status of the code, that is to what extend the codes express declarations of intent or actual business practice” and it states: “the structure depends, among other things, on the type of code that the company has in mind” (ibid: 28). On the condition that codes display coherence, it is considered that once codes are designed on a values-based manner, that this is reflected throughout the entire code. Raising this additional requirement has relevant implications regarding how the control orientation is deduced from the codes gathered. This is further explained in the methodology section.

Codes types offered in prior literature

The first categorization of code types is offered in Farrell & Farrell (1998) and also in Farrell & Cobbin (2000). Both studies divide the spectrum into inspirational and prescriptive codes. This distinction emerges from the two different perspectives on ethics. The inspirational view

considers ethics as empowering the individual addressee to be ethical. Likewise, such codes offer corporate values and principles that are not applied to concrete situations. Farrell & Cobbin (2000: 181) argues: "each member of the organization is bestowed with the power, the responsibility and the opportunity to act ethically". It then reflects on the applicable code type as follows: "the code its content necessitates the addressees themselves making the choices (…)". The alternative approach applies values and principles to concrete situations of moral hazard, i.e. ethical dilemmas. Likewise, prescriptive codes provide ethical decisions to these situations and hence, this forms the subject matter contained in the code. The desired response from individual addressees is thus not the making of autonomous decisions but compliance with the prescriptions (Farrell & Farrell, 1998). While they both draw on similar perspectives provides Farrell & Cobbin (2000) additional nuance to the initial categorization of inspirational and prescriptive codes. Codes that solely contain prescriptive rules, defined as operational definitions, are referred to as decretal. The term allodial is applied to inspirational rules and to descriptive codes that omitted operational definitions. All things considered, both categorizations of code types are closely linked to the dichotomy that consists in the theory on control orientation. Evidently, the inspirational (decretal) code complements the values-based (compliance-based) system. Though, both studies remain in their infancy as to the provision of elements that indicate one of the two code types. This reduces the ability to unambiguously determine what code type is observed when examining the empirics.

Kaptein (2004) finds that business codes are not uniform concepts. According to the analysis conducted, it clusters codes into stakeholder statutes or business principles, values statements and codes of conduct. The design parameters that appear to differ across the considered types comprise (i) focus, (ii) level of abstraction, (iii) length, (iv) use of pronoun and (v) attention to compliance. The study appears to be relatively clear on the parameters that are constituent to a certain code type. It as well provides a table with parameter values per cluster. This offers sufficient means to develop operational definitions for the code types to define. Though, the clusters or code types offered in Kaptein (2004) are less linked with the distinction between the values- and compliance-based system. KPMG (2008) complements this deficiency as it categorizes principle- and rule-based codes. This distinction is quite appealing to the research undertaking of deducing the control orientation from the codes gathered. Indeed, defining the values-based system as adequate manner for guiding behavior stems from the implications of the principle-based regulatory design. This in turn is the foundation on which the distinction between principle- and rule-based codes in KPMG (2008) is drawn. The theory therefore adheres to the latter distinction. The design parameters that likely differ across the defined code types are similar to the ones mentioned in Kaptein (2004). An aggregation of both code types into design parameters and corresponding values is offered in the table below.

Exhibit (12) Categorization of code types – the table provides design parameters and corresponding values for what is referred to as the values-based and compliance-based code. The relevant parameters that differ across both types of codes are obtained from Kaptein (2004) and from KPMG (2008).

DESIGN PARAMETER	PARAMETER VALUE PER CODE TYPE	
	VALUES-BASED	**COMPLIANCE-BASED**
(a) Objects / subject matter	*Values, responsibilities, principles*	*Standards, rules.*
(b) Focus / emphasis	*Both internal, external.*	*Primarily internal.*
(c) Level of detail	*Mostly abstract.*	*Mostly detailed.*
(d) Length	*A single to few pages.*	*A few to many pages.*
(e) Use of personal pronoun	*Often first-person singular.*	*Often second-, third-person singular.*
(f) Tone	*Positive, descriptive.*	*Commanding, prescriptive.*

The above categorization of code types offers a sufficient preparation in order to determine whether business codes of FIs reflect the control orientation that enables them to be effective for mitigating compliance risk. The key parameters that follow from the literature review on effective code design in section 5.3 are immersed in the characterization of the values-based code type (see: values that are shaded in purple). The values-based code, as depicted above, does not directly respond to the criterion that codes should have specific content, however. Nevertheless, it is assumed that the code its specificity is expressed once they offer adequate interpretation to the essential behavior, as defined in chapter four. The criterion on specificity is therefore equally included in the analysis that concerns examining the business code its application to mitigate compliance risk.

§ 5.5. Conclusion

Business code studies roughly centers on those examining the messages codes convey and on studies the measure the perceived or actual code effectiveness. The results of the latter research branch demonstrate dissensus on whether codes are effective applications. This is partly due to the large variation in the chosen research parameters across these studies but more importantly, code effectiveness is not only determined by its mere presence; it as well pertains to its design. Theory and empirics related to code design effectiveness enable determining a set of design parameters that allow the business code to be an effective application for mitigating compliance risk according to its design. Even though there is not a single design more superior to another, one is still able to define multiple design parameters and values related to the earlier established values-based orientation for guiding behavior. This resulted in the development of a values- and compliance-based code design over six design parameters and associated values. This allows verifying if codes are effective for mitigating compliance risk according to their design.

Chapter 6 – Theoretical conclusion

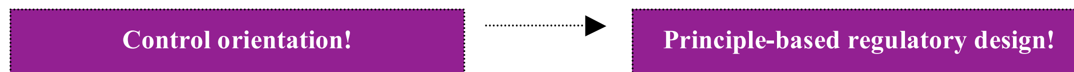
The theoretical response to the central research question is offered here. The resolution of this question is assumed completed on the explanation of both sub research relationships. Hence, this theoretical conclusion provides response to the relationships, which are elaborated below.

Sub research relationship:

Providing adequate response to the ethics underpinning WFT requires an understanding of the existence of financial regulation in general. The raison d'etre of regulation is the preservation of an efficient financial sector. An important justification for maintaining this efficiency is the protection of retail consumers and this is facilitated through the imposition of rules upon the providers of financial services. The need to provide this protection stems from the presence of information asymmetries between both actors. Financial firms are able securing the interests of consumers on the premise of providing them with efficient information, which allows them making adequate decisions on whether to engage in the services being offered. The provision of adequate services bridges information asymmetries and hence, this preserves efficiency. Though, services are provided unless there is sufficient confidence among consumers that it is adequately provided. FIs need therefore create positive expectations about the adequacy of their current and future services. This touches at the core of the concept of trustworthiness. The propagation of trustworthiness depends on the adherence to a set of attitudinal attributes when conducting businesses. The behavioral attributes are defined as the *indicators of trust,* which are laid down in qualities, which are *openness*, *integrity*, *benevolence* and *competence*.

The awareness for maintaining trustworthiness as well as guiding behavior towards the above qualities is possibly facilitated in the businesses of FIs by means of the business code. This particular vehicle is company-specific and intends guiding present and future behavior of at least managers and employees. A decomposition of the business code demonstrates that the pursued behavior is expressed in subject items. These items may appear in business codes, as expressions such as they are included in the corporate integrity model. Hence, items express *corporate values*, *stakeholder responsibilities* and *stakeholder principles*, *standard and rules* and *compliance and implementation references*. Even though all expressions may have equal importance to ensure that the essential behavior is upheld within businesses, it is argued likely that the awareness for trustworthiness and the attitudinal qualities appear as references, which pertain to values, responsibilities and principles. This is depicted at the end of the chapter.

Sub research relationship:

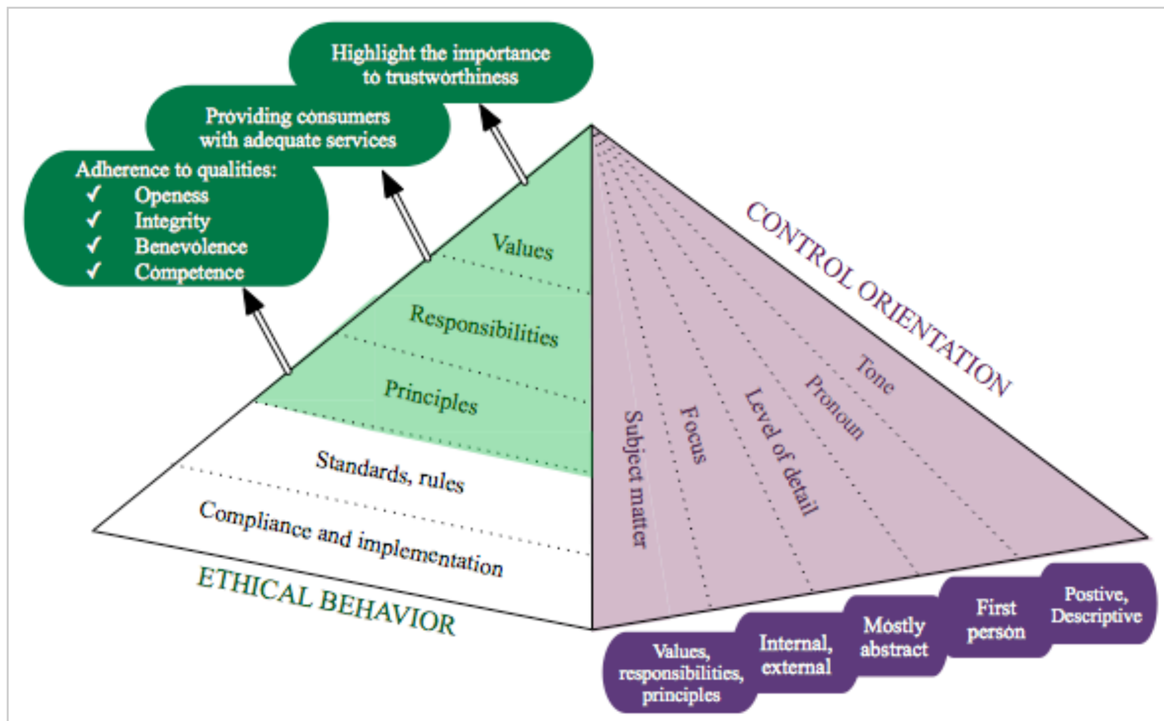


The principle-based regulatory design is paramount in the WFT financial regulation. General considerations upon PBR and specific references to WFT, allow defining it as the application in the rulebook of broad-based standards in favor of prescriptive rules. Standards or principles central a concern for the outcomes the regulation intends for those for which it is designed. Regulated firms are given the discretion to provide adequate substance to the outcomes that are laid down in the norms considered. In all, PBR shifts responsibilities from the regulator towards regulated firms. Defining the manner for guiding behavior in response to PBR is grounded on the assumption of coherence between what the regulator intends from regulated firms and how they respond to the regulation accordingly. This yields two considerations. The introduction of broad-based standards induces FIs to increasingly focus on the underlying ethics of regulatory norms when guiding behavior. Firms need encourage responsible conduct by means of applying principles for guiding behavior. This is known as *ethical compliance.* The downside of PBR considers the imposition of increased interpretative risk upon regulated firms. This induces FIs to apply *risk-based compliance* and this may run counter to the efficacy of ethical compliance. Particularly when it leads FIs to become less committed to the ones for which the regulation is designed. This contradiction is known as the *ethical paradox*. The conclusion is nevertheless that both perspectives are concurrently applied for mitigating compliance risk. Ethical compliance is foremost relevant because it pins down the manner to which behavior is adequately guided.

Exchanging compliance perspectives for management control theory allows defining which orientation is coherent to the implications of ethical compliance. General management control literature demonstrates that the attainment of congruent behavior (including ethical behavior) is possibly attained according to formal and informal controls. This dichotomy is abandoned since it is highly associated with the vehicles that facilitate management control (including business codes). Whether business codes are formal or informal means is above all dependent of what it expresses. The control orientation theory is more adequate for defining a manner for behavioral guidance, coherent with ethical compliance. Reflecting on the latter allows defining the *values-based system* as predominantly coherent. It aims to internalize values on the propagation of positive ethical aspirations by means of the application of principles. The *compliance-based system* is however not completely evaded. Enforcement mechanisms may in fact strengthen the seriousness to act in accordance with the principles applied. Besides, it creates predictability that one will be punished once principles are compromised.

Business codes cover dimensions beyond the differences in subject matters that they express. They as well expose variations in the amount of guidance offered, their level of enforceability and deterrence and also in the composition of rules and principles. Hence, business codes may express different control orientations. Though, regardless of the orientation expressed, codes should be consistently designed. A critical reflection of business code studies, that examine code effectiveness according to its design, allows for the determination of a set of parameters that enable defining the business code its control orientation. Design parameters that are key the code its orientation are related to *subject matter, focus, level of detail, the use of personal pronoun* and *tone.* The parameter values that are related to the values-based orientation are depicted in the schematic representation of the conclusion. A values-based business codes, as expressed in the parameter values below, finally allows the code to be an effective application for mitigating compliance risk.

Exhibit (13) – theoretical conclusion – the figure below unites the conclusions of both sub research relationships. The imaging of the corporate integrity model as pyramid is derived from KPMG (2008) but modified for providing conclusions. The left (right) part shows the ethical behavior (control orientation) that allows the code to be an effective application for mitigating compliance risk. The former presumes the essential behavior to appear in the above three categories and the related boxes provide the interpretation. The right part shows design parameters that highlight the values-based orientation. These parameters are 'subject matter', 'focus', 'level of detail', 'pronoun' and 'tone' are shown in the base of the figure and the related parameter values are added in the enclosed boxes.



Chapter 7 – The research method

§ 7.1. Introduction

The foregoing offered a rather comprehensive theoretical reasoning on the application of the business code for compliance risk mitigation. Theory pinned down the ethical behavior that is assumed essential for the adherence to WFT financial regulation. It furthermore defined the manner for guiding behavior in response to the design of WFT financial regulation according to control orientation theory. The assumed ethical behavior as well as the control orientation is associated with the vehicle of interest: the business code. This brought the theoretical outcome regarding content and design that presumably offers adequate response for carrying out the business code its application for compliance risk mitigation. The theory thus offered sufficient reasoning to examine this specific application in an empirical research setting.

Though, before being able to draw empirical inferences, data should be gathered and modified in the course of research. This process is considered the research method. Accountability for all the decisions that pertain to and shape this methodology is offered in this chapter. This begins with reporting on the approach for gathering business codes of FIs that operate in the NL financial sector. The latter data comprises the empirical basis on which inferences are drawn. Defining the empirical basis then continues with reflecting on the applicable research design. An adequate definition hereto is offered in Krippendorff (1980: 49), which refers to it as “procedural network of analytical steps through which scientific information is processed”. The process of verifying whether business codes are an effective application for mitigating compliance risk is divided over three interrelated research undertakings. Each of these tasks and their interrelatedness is treated in section 7.3. This chapter finally closes with providing an understanding on the application of item measuring scales and their accompanying purposes.

§ 7.2. Gathering business codes

Defining an adequate method for collecting business codes actually implies resolving three considerations. The first relates to defining the multitude of financial service providers, which are complement to the context of research. Ultimately, codes are obtained from firms, which are more or less equally exposed to the compliance risk considered. The second consideration comprises the delineation of those firms that may have instituted a code into their businesses. The third consideration then presents itself once possible code possessors are determined and is expressed in the formulation of an approach to gather the codes from the respective firms. The approach is then executed accordingly, which ultimately results in the establishment of the empirical basis. The above roadmap is further elaborated in this section.

Defining the multitude of firms – for defining firms that fit to the research context, one should return to the considerations on the WFT financial regulation. The fourth part of WFT, which includes the conduct of business regulation, is in particular considered the relevant source for compliance risk. The theory (i.e. section 2.4) devotes attention to predefining financial service providers that fall within the research scope. It elaborates on the regulatory concept 'financial undertaking' and mentions that WFT defines nine undertakings. It eventually states that each financial service provider is targeted by the WFT. Hence, there is none reasonable restriction as to the financial firms on which the empirical basis is drawn.

There is however still some specificity needed as to which FIs are selected for the purpose of research. To this end is once more returned to the legislative scope of the regulation by means of examining the AFM register, which is publicly available via the AFM website. This source offers particularly accurate information on financial undertakings that are covered by WFT. According to the examination of the AFM register is decided to base the initial list of FIs on firms that are popularly known as (i) bank, (ii) insurer, (iii) investment firm and (iv) pension provider. These types of firms share interaction with (retail) consumers. In this capacity, they are particularly required adhering to the underpinnings of WFT and hence, it is most likely that these typologies central a concern for trustworthiness and the constituent characteristics.

Defining possible code possessors – there is a rather large share of initiatives available in the NL financial sector that led to the establishment of industry-specific codes. Such vehicles are referred to in Kolk & Tulder (2001) as meso-codes. Two prominent examples of meso-codes are the *Dutch Banking Code* and the *Code of Conduct Insurers*, which are issued by the Dutch Banking Association and the Dutch Insurers Association, respectively. FIs are encouraged to endorse such initiatives and hence, such codes are proposed for self-regulation. Nevertheless, meso-codes fall beyond the scope of research. This follows from the applied definition, which states that codes should be company-specific. Business codes are thus considered valid once they are composed by and for the financial firm in which they have their intended purpose.

For selecting possible code possessors from the initial list of FIs, attention is drawn to code collection methods of past BCCA studies. It appears that scholars somehow admit a positive relationship between firm size and code presence (Cressey & Moore (1983); Farrell & Cobbin (1996); Kaptein, 2004). This relationship is as well explained in the theory as it mentions that codes may function as coordinative means in large firms. In addition, it is considered efficient to compose the empirical basis on a limited amount of large firms that exert a large impact on the financial sector, rather than choosing a large set of small firms with minor impact each. It is assumed that the former approach allows drawing strong inferences with fewer efforts.

Gathering business codes – Reflecting on past BCCA studies once again, it appears that codes are gathered either *solicited* or more or less *unobtrusive*. The former approach is observed in Blodgett & Carlson (1997) and Carasco & Singh (2003) and entails requesting firms making copies of their codes available for examination purposes. The unobtrusive manner is not observed in isolation but consists (nevertheless) in obtaining codes without consultation of the firm to which it pertains. The collecting methods that are observed in Kaptein (2004) and Canary & Jennings (2008) apply the unobtrusive manner by deducting business codes from corporate web sites. While Kaptein (2004) considers collecting codes via the Internet as not very promising is nevertheless decided to use the latter manner as primary gathering method. Deducting codes from corporate web sites is assumed effective because FIs are increasingly enclosing information on their compliance programs (Ernst & Young, 2010). It is furthermore efficient as it enables obtaining a large amount of codes in a rather short time period. Finally, the firms on which code presence is assumed but not disclosed are requested for participation to the research.

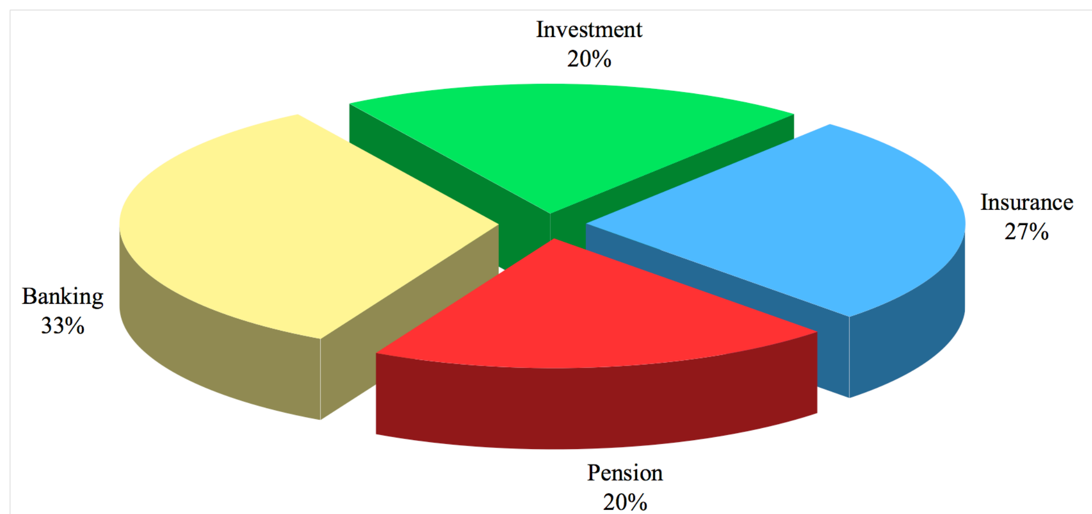
The above considerations resulted in an approach for composing the empirical research basis. This process took effect from March 2012 until April 2012. Accountability for all choices made during this process of gathering business codes is provided in the enumeration below:

- The initial list of financial service providers is composed using the Orbis Database that is accessible via the Erasmus University. Companies were selected in accordance with the typologies defined and sorted by size using 'operating revenue' as the relevant indicator.
- The Orbis results are examined and also verified with the available member lists of the Dutch Banking (and Insurers) Association. This process eventually resulted in narrowing down the initial multitude to a manageable amount of 59 firms. Interrelatedness between firms is not removed here since affiliate firms may possess separate codes.
- To preserve consistency in gathering codes form corporate websites a set of rules is set which are followed during the process. These rules are shown in the table:

REQUIREMENTS FOR CONSISTENT DATA GATHERING
Codes from corporate web sites are considered valid. The source from which these copies are obtained confirms that the versions availabe are most current. This is not verified afterwards, expect for one copy of which the validity was confirmed by the contacted press advisor.
Affliates of group firms are considered covered in the empirical basis once the business code of the group firm states that the affiliate is subject to the code. Affiliates that embedded a seperate code are treated as independent firms in the research.
Affliates of foreign groups are as well covered in the empirical basis. The compliance risk exposure of these firms is *de facto* not different from their domestic counterparts. Business codes of group firms are included once it is confirmed that the affliate abroad is subject to the code.
Foreign affiliates that derive their legitimacy solely from providing a corridor between The Netherlands and their domestic market are excluded from the empirical basis. These firms provide such specific services and therefore fall beyond the research scope.

The primary gathering method yielded an amount of 21 business codes, which covers a total of 30 of the 59 firms that were initially selected. Moreover, 16 of the 59 firms are considered not suitable for the study and hence, their codes are purposefully left out. For the remainder 13 firms it appeared that their codes were not retrievable via their corporate web sites. Four of these firms were contacted in response, to request them making available a copy of their code. Requesting press advisors or compliance officers appeared to be successful in three of these cases, adding up the empirical basis to a total amount of 24 business codes. A decomposition of the financial services of the related firms is schematically depicted in the chart below.

Exhibit (14) The empirical basis – The chart below depicts the empirical basis of the research according to the type of financial services, which are provided by the firms that are related to the codes gathered. The process of gathering yielded an amount of 24 applicable codes. The chart divides financial services into investment, insurance, pension and banking. There are furthermore firms that provide multiple services. These treated as such.



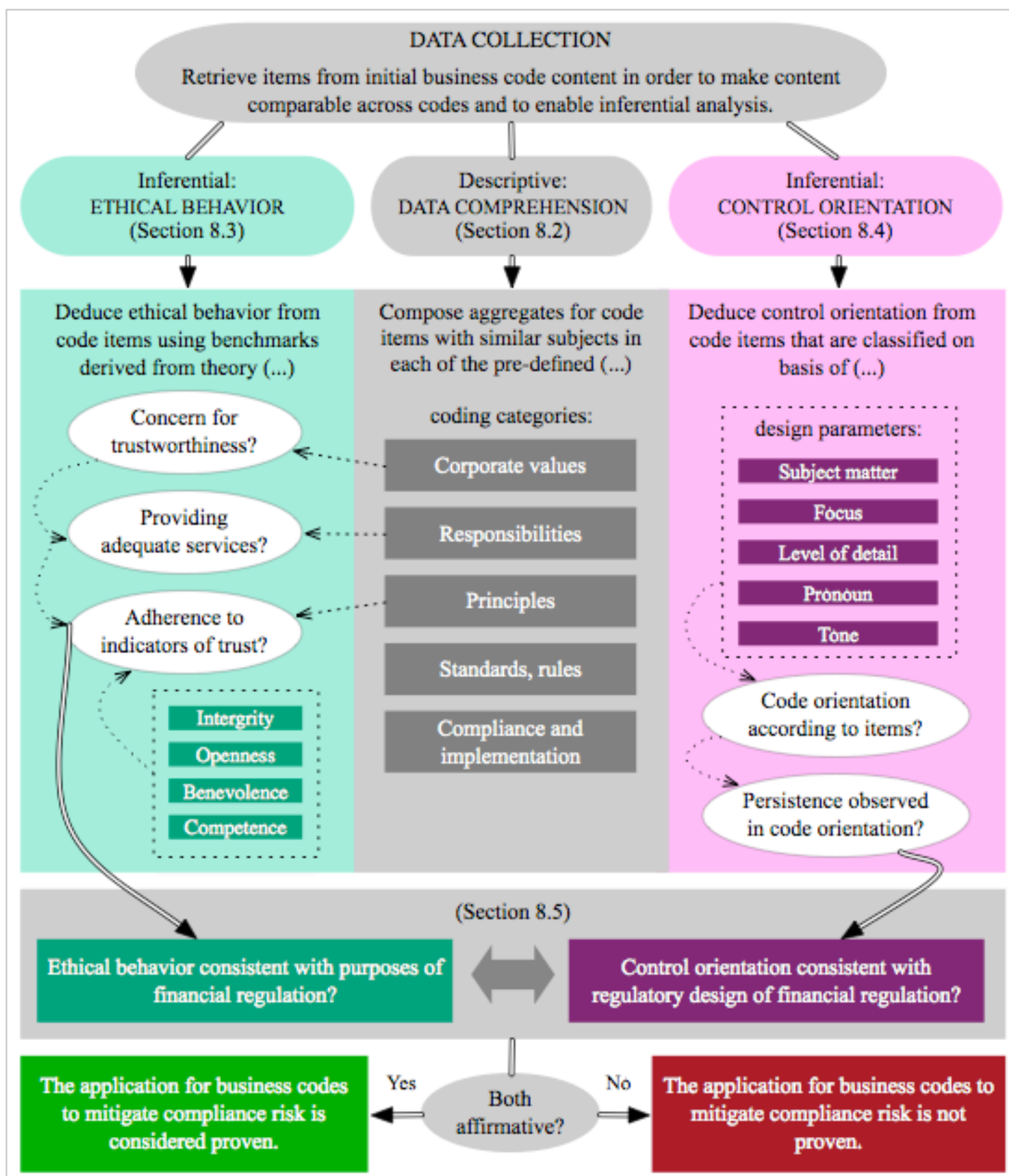
The process of gathering business codes yielded a total of 24 different documents. It is fair questioning whether this is a sufficient base for empirical inferences. It is believed that the compiled sample is sufficient since it is consistent with the empirical domain from which it is drawn. Studies as O'Dwyer & Madden (2006) as well as Kaptein (2004) examine selections of codes that are drawn from extensive empirical contexts. Likewise, the amount of codes included is larger. Comparing the latter with the total presence of firms to draw upon, then the samples appear to be moderate, however. The empirical basis is thus adequate considering the modest domain from which it stems. Besides, the gathered codes are originated from virtually the largest financial service providers that are active in the NL financial sector. These firms together impose considerable weight to the sector. It is assumed that this allows for drawing strong inferences. At last, the number of gathered codes is considered consistent with the research method. The examination of business codes does not intend the use of likelihood estimators or otherwise in order to explain population phenomena. Likewise, the considered data need not necessarily meet properties that require normal distributions, etcetera.

§ 7.3. The research design

The gathering process of business codes is beyond since it is assumed that a sufficient amount of empirical data is obtained. Currently, the initial code content need be modified into useful scientific information in order to draw inferences eventually. This whole process is regarded the research design and is presented in this section. The ultimate purpose of research entails providing an empirical response to the theoretical conclusion that is drawn in chapter six. This boils down to examining whether the observed business code application for mitigating compliance risk will be proportional to the theory. Several activities need be executed in order to arrive here. Hence, the research design falls apart into four different processes. These pertain to the (i) data collection, (ii) data comprehension and to deducing from code content (iii) the essential ethical behavior and the (iv) code control orientation. This section offers a concise description on each of the above processes. One and other is furthermore illustrated in a flowchart to grasp the interdependence between processes and their order of execution.

DATA COLLECTION – This preliminary process establishes comparability of content across business codes gathered. The initial statements that codes carry are therefore modified into standardized code items. This process of collecting data by means of standardizing content is closely related to what is known as 'content analysis'. Krippendorff (1980) provides a highly substantial literature on this particular research method and it states that any content analysis must be performed relative to, and justified according to the context of the data. Due to similarities between the present research and the BCCA studies treated in chapter four (in terms of context of the data) is the guidance for standardizing code content derived from the latter research base. The methods observed in these studies pertain to computerized analysis, iteration and the pre-defined coding structure. The former applies the aid of text analysis software in generating text networks for inferential purposes. This is observed in Canary & Jennings (2008). An iterative process relates to shaping the system for standardizing code items concurrently with the data collection process. This is observed in Gaumnitz & Lere (2002), which expresses this particular method as follows: "The final coding structure evolved in response to the data" (Ibid, 40). While both methods do have their particular strengths, their incidence in BCCA studies appears to be highly modest. The data collection process therefore primarily focuses on standardizing items by means of a pre-defined coding structure. Among all structures observed in BCCA studies, the present research will rely on standardizing data using the corporate integrity model as shown in Kaptein (2004). This model particularly enables standardizing the subject matters that code items carry. Though, in addition to standardizing subject matters, the data collection process as well prepares code items such that they can be applied for the inferential processes in the course of research. All code items are included in a dataset from which the remainder processes will depart.

Exhibit (15) the research design – the flowchart below presents the research design that relates to the thesis its empirical research. The chart depicts all the constituent processes that eventually allow giving empirical response to the theoretical conclusion that is drawn in chapter six. The first process is referred to as DATA COLLECTION. This preliminary task handles modifying the initial business code content into comparable code items that allows data comprehension and also, drawing inferences in the course of research. The second process provides the comprehension of the observed data (DATA COMPREHENSION). Similar items across codes are combined resulting into aggregate subjects for each coding category. The comprehension of the data initiates the inferential process that concerns deducing the essential ethical behavior from business codes (ETHICAL BEHAVIOR). This boils down to comparing code items with three benchmarks derived from theory. The other inferential process is referred to as CONTROL ORIENTATION and infers the code its orientation from the design parameters through which all constituent code items are measured. Finally, the ethical behavior and control orientation are jointly examined. Depending on the extent to which the empirical findings are proportionate to theory will be determined if the business code is considered an effective application for compliance risk mitigation.



DATA COMPREHENSION – acquiring an understanding on the subjects that codes address, their diversity and incidence is deemed necessary to assess a specific application for business codes. Indeed, if the business code intends to mitigate compliance risk it should be reflected in the awareness it raises and the requirements it contains. A description of the observed data is therefore conducted prior to the inferential analyses. This particular process is referred to as data comprehension. A necessary condition to this process is the comparability of the data, which is secured by means of standardizing code items. Describing code content thus consists in comparing items across codes. This allows for developing aggregate subjects of those items that raise similar matters. The aggregate subjects are listed in summaries for each of the pre-defined coding categories. This gives sufficient understanding on the subject matters that the related FIs address in their codes. The data comprehension is provided in section 8.2.

ETHICAL BEHAVIOR – The empirical research includes two inferential analyses that are conducted independently. Though, they both resolve a part of the puzzle as to determining the code its application for compliance risk mitigation. The purpose of the analysis that is firstly performed concerns the inference of requirements from business codes that raise awareness to the ethical behavior that is deemed necessary for adhering to the purposes of WFT regulation. The presence of such behavior in code items is assessed according to three benchmarks that are strictly derived from theory. Each benchmark pertains to a particular coding category in which the presence of the ethical behavior is theoretically presumed. This explains the actors, drawn in the flowchart between coding categories and benchmarks, which are depicted in the ellipses. The presence of the ethical behavior is not grounded on the extensiveness with which a code treats a certain matter. Rather, the presence of the ethical behavior is validated on the meaning that items express and the extent to which this is theoretically consistent. Adherence to this approach for deducing the ethical behavior follows from Donaldson & Dunfee (1999), which states that numbers do not determine the moral legitimacy of an ethical standpoint. The outcomes on each benchmark are furthermore compared, depicted in the flowchart by the actors between the ellipses. Comparing benchmarks allows determining the consistency with which codes raise awareness for adhering to the ethical behavior that is deemed necessary. The elaboration of this inferential analysis is included in section 8.3.

CONTROL ORIENTATION – the remainder inferential analysis entails deducing the control orientation of the considered business codes. The theory argues that a values-based system to guiding ethical behavior offers adequate response to the regulatory design of WFT regulation. Perceiving the business code as vehicle for behavioral guidance, this process determines if the business codes are designed values-based or compliance-based. The application for mitigating compliance risk is thus validated on the extent to which codes are values-based designed.

The code its control orientation is grounded on the individual orientations of constituent code items. The control orientation for each item is captured according to five design parameters. This is handled during the data collection process, explaining the connection between both research processes in the flowchart. The set of relevant design parameters is strictly derived from theory and comprises, (i) subject matter, (ii) focus, (iii) level of detail, (iv) pronoun and (v) tone. An explanation on the values that are attributed to these parameters is explained in the following section. The individual code items are scaled from values-based to being compliance-based, which follows from the measured values for each design parameter. Then, aggregates are developed of all constituent items that pertain to a similar scale. The code its orientation is then represented in the highest scale of the distribution. Determining the code its orientation according to constituent items is reflected in the upper ellipse in the flowchart.

Though, confirming the code its application for compliance risk mitigation need not be solely grounded on the highest scale in the distribution; it should as well be substantiated on the persistence with which the control orientation is observed. Guidance thereto is offered in Kaptein (2004), which states that codes should have a clear status. In addition, Farrell & Farrell (1998) mentions that code items should not contain contradictions. The determination of the measured code orientation will therefore be accompanied with a discussion upon the persistence that is observed in the design accordingly. The lower ellipse in the flowchart depicts this. Code orientations and the discussion on persistence are included in section 8.4.

§ 7.4. Measuring code items

The former section provided a description on the analysis that concerns measuring the control orientation of codes. It thereby hinted the application of a scale, which is used for inferences. On the whole, the research applies various scales for several purposes. An explanation on the means to which code items are measured can therefore not be omitted in the description of the research method. Hence, this final section offers accountability on the measurement processes and how these will affect the process of inferences accordingly.

Item extensiveness – all the processes that pertain to the empirical research are qualitative in nature. It is evident that the items that are captured from codes will not express any quantities. Though, the former section offered proof on measuring items along a set design parameters as well as aggregating items according to their scaled orientation. Krippendorff (1980) refers to such practices as counting qualities. The first scale that requires an explanation handles the extensiveness with which items are treated. The research processes related to comprehension of data and control orientation apply the scale of item extensiveness because it makes possible to accurately measure the distribution of subject matters and code orientation accordingly.

Scales that account for the extensiveness with which certain matters are treated in business codes is as well observed in prior BCCA studies. Particularly cited here are Mathews (1987) and Lefebvre & Singh (1992). Both studies capture item extensiveness on a four-level scale. The present research applies a scale similar to that observed in the latter studies. Though, the initial scale ‘Not discussed’ is omitted since the data comprehension only displays factually occurring subjects. The first scale in the extensiveness range therefore refers to ‘Concise’, which is used for items that are expressed in no more than two sentences. ‘Semi’ pertains to the items that seize more than two sentences and less than five and ‘Extensive’ is attributed to items that are even more strongly emphasized. Then, weights are attached to the above scales ranging from one to three, respectively. This allows for a subtle description of the observed content and it enables to determine the code its control orientation fairly accurately.

Design parameters – Code orientation is grounded on the orientation of the constituent code items that is determined according to a set of five design parameters. The first parameter manages the subjects that items bear according to the coding categories. The interpretation of an item as corporate value, responsibility or principle indicates that it is values-based whereas the remainder categories indicate the opposite orientation. The second parameter concerns the focus of code items. The constituent values are internal and external and their assignment depends on whether the message of the item is pointed towards the firm or its stakeholders. An internal focus adds to the item being compliance-based and vice versa. The item its level of detail is captured in the third parameter. A high level of detail is designated to items that include operational definitions (see: Farrell & Farrell (1998)), which indicates that the item is compliance-based. The absence of operational definitions adds to an item being values-based. The parameter ‘pronoun’ then divides three constituent values. Individual items are stated in the first-, second- or third person singular or plural. Items that illustrate first-person forms are seen as values-based. The remainder pronoun indicates the opposite. The fifth parameter treats ‘tone’. An item may convey a descriptive, positive, enabling message or a prescriptive, negative, restrictive one. The former-stated expressions adds to values-based and vice versa.

Control orientation scales – applying the above parameters implies designating five matters as either compliance-based or values-based for each code item. The following ordinal scale is developed in order to infer the control orientation per code item. Each parameter is equally weighted resulting into the following scales: ‘Values’ is applied to code items that respond to at least four values-parameters. ‘Predominantly values’ are the items that capture values-parameters equal to three. ‘Predominantly compliance’ relates to code items that bear compliance-parameters equal to three and at last, ‘Compliance’ is reflected in code items that include at least four compliance-parameters.

Chapter 8 – Empirical findings

§ 8.1. Introduction

The empirical research establishes whether the application for compliance risk mitigation, as observed in the gathered codes, is proportionate to its theoretical interpretation. The former chapter paved the route that need be pursued to arrive at an appropriate response accordingly. The initial process of this so-called research design entails collecting all the data from the gathered business codes. This data collection process brought about the numerical record of modifying 344 initial business code pages into 1,295 separate code items. The standardization of the subject matters that code items carry is derived from the approach to content analysis as observed in Kaptein (2004). Some additional standardization appeared furthermore necessary for maintaining consistency in capturing the observed code content. Besides standardizing subjects, the data collection process as well prepared code items for the inferential analyses on which the application for compliance risk mitigation is empirically grounded. This boils down to tagging those code items that pertain to the ethical behavior. Items are as well measured according to the design parameters that allow for determining the code its control orientation. The data collection can be viewed in the dataset, which is digitally annexed.

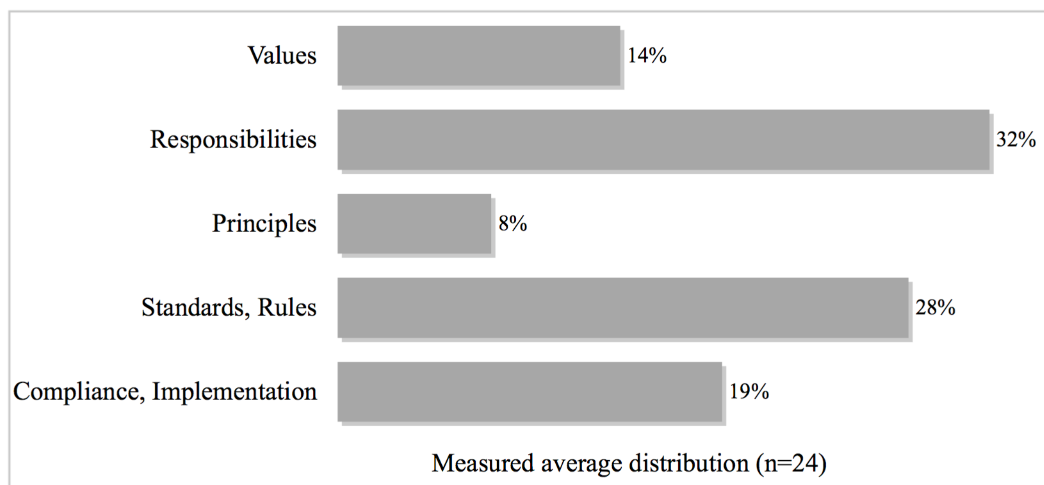
Modifying the initial data into a set of comparable code items offers the justification to examine if the observed application for compliance risk mitigation is proportionate to theory. This chapter presents the empirical findings that lead up to this determination accordingly. The roadmap for showcasing these findings finds tight connection with the research design, as shown in the former chapter. In accordance with the order of research processes, this chapter provides a comprehension of the data, an account on the presence of the ethical behavior and an account and accompanying discussion on the determined code control orientations. As to the first, section 8.2 offers proof on the exercise of aggregating all code items that capture similar subject matter. The aggregate subjects are displayed in summaries of which some are motivated in the section. Section 8.3 offers an account and a related analysis on all code items that highlight the ethical behavior that is argued essential for mitigating compliance risk. The following section complements the research and offers the findings on the codes their control orientation, which is determined according to the individual orientation of constituent code items. Finally, section 8.5 merges the key elements of the former two analyses. This enables pinning down those codes that integrate both the ethical behavior and the control orientation in a theoretically proportionate manner. Therefore, it offers a sufficient prelude to providing response to the central research question that is treated in the conclusion (section 9.2).

§ 8.2. Data comprehension

Examining a specific application for business codes requires a notion of their content. Indeed, if a code intends to guide behavior on a certain matter, it should be reflected in the messages it conveys and the requirements it contains. Developing this understanding is possible by means of comparing business codes in order to collect the subject matters they address. To this end, codes need be made approximately comparable, which requires a standardization of their content. The modification of the initial content into comparable code items is derived from the approach to content analysis that is observed in Kaptein (2004). This resulted in the accommodation of items across business codes into five categories. Items are classified as values, responsibilities, principles, as rules or as reference to compliance and implementation. A further refinement to each coding category is applied either in accordance with the insights gained from Kaptein (2004) or in response to the data where that was deemed necessary.

This section only displays and describes (sub) categories that are considered relevant for the inferential analysis that pertains to deducing the essential ethical behavior. Treating all the captured data will not directly contribute to this research matter. The full comprehension of the data is nevertheless included in the enclosed dataset. Some categories that are treated in this section are preceded by a somewhat renewed interpretation of their meaning. Additional tightening of category definitions appeared necessary for consistent standardization of items. Finally and before the description of the data commences, a summary statistic shown, which describes the average distribution of code items across the pre-defined coding categories. The statistic provides a notion on the weights observed and hence, on the average composition of the business codes that are scrutinized in the course of research.

Exhibit (16) the average distribution – The figure below depicts the average distribution of code items according to the applied coding categories. The table exposes the scales, similar to the categories on which items are coded. It appears that responsibilities are on average most extensively treated, whereas principles appear least widespread.



Corporate values – it appears that all business codes examined capture some content, which is possibly interpreted as corporate value-items. The common link between such items is based on the presence of certain attitudinal characteristics that need be pursued by code receivers. In addition, corporate values are not appointed to a certain stakeholder. Rather, they ground all business conduct. Some codes are quite explicit on the corporate values that the related firm pursues. Other codes contain items that are not directly regarded as corporate value but may be derived as such on the premises that they are not explicitly targeted to a single stakeholder.

Once all corporate values-items are classified, they are compared across codes. This brought the understanding of single items containing multiple values. This is dealt with by means of treating all enclosed values within a code item separately and classifying them as concisely treated each. In addition, some business codes capture multiple similar values-items. Here, these values are summed (as well as their initial extensiveness) up to the maximum defined extensiveness. These rules for dividing and adding code items are subsequently applied to the remainder categories of the coding structure. Comparing all values-items eventually yielded a total 23 aggregate items. The subject matters that the aggregates carry are shown in the table.

CORPORATE VALUES FROM / WITHIN THE ORGANIZATION *(key term, amount of codes, proportion (n=24))*					
Law compliance, -Adherence.	13	54%	Excellence, Good reputation, Pride, Continuous Improvement.	6	25%
Trustworthiness.	13	54%	Teamwork, Join forces, Cooperate.	6	25%
Fairness, Honesty.	12	50%	Costumer focus, -Value, -Appreciation.	5	21%
Respect dignity.	12	50%	Quality, Craftmanship.	5	21%
Transparancy, Openness.	12	50%	Secrecy, Discetion, Diligence.	5	21%
Balanced decision-making, Loyalty, Solidarity.	10	42%	Innovative, Creative.	3	13%
Reliable, Keeping promises.	10	42%	Long-term-, sustainable stakeholder relationships.	2	8%
Responsible, Self-reflective, Accountable, Feedback.	10	42%	No unfavourable behavior, Business that endangers values.	2	8%
Integrity.	9	38%	Raise risks, Provide solutions.	2	8%
Professional, Competent, Personal development.	9	38%	Entrepeneurship.	1	4%
Accessable, Open dialogue, Responsiveness.	7	29%	Local approach.	1	4%
Results-driven, Cost effective, Efficiency.	7	29%			

The table shows off *all* corporate values collected from the codes examined. The counts on the extent to which these values are treated (ranging from concise, semi, to extensive) are left aside as this section intends to demonstrate item diversity regarding subject matter. The omitted data that relates to extensiveness may be obtained from the enclosed dataset.

The table reveals that both the matters, 'Law compliance, -Adherence' and 'Trustworthiness', are most recurring in this particular category. As to the first, while it is deemed that corporate values will carry an inspiring message, it appears that these items differ as to their inspiring extent. The statement in code (21) is quite sober and states: "We are committed to complying with all legal requirements in all countries in which we operate". Another code (17) is more inspiring. The item occurs as: "Professionalism requires being informed on laws, regulations, internal guidelines, agreements and adhering accordingly". Regardless of its appearance, it seems that FIs attribute great value to complying with, and adhering to the law. This finding is arguably quite promising for affirming the code its application for mitigating compliance risk. Though, the reasoning that genuinely affirms this application is not so much related to the letter of the law but should more so appoint to the purposes of regulation. The second oft-recurring matter in fact touches upon the spirit of the law, as it appears that FIs attribute equal value (expressed by count) to trustworthiness. The items that pertain to this matter are often complemented with behavioral traits that allow demonstrating trustworthy conduct. For instance, one code (3) mentions: "Society and specifically, clients and business partners should have trust in the professional, sustainable and honest manner in which the company operates in society and towards partners". Another (9) states: "We maintain trust of consumers, business partners and peers by keeping our commitments". If one combines both matters then it appears that 5 codes claim to value both adherences to the letter and to the spirit of the law. A further scrutiny on trustworthiness is treated in the following section.

Stakeholder responsibilities – the average distribution of examined business codes shows that responsibilities hold the greatest weight in the distribution. Hence, FIs devote the utmost attention to addressing responsibilities in their codes. Such items are pointed to stakeholders that are similar to those mentioned in Kaptein (2004). The refinement that is observed in the latter study appeared sufficient for capturing all responsibilities observed. Not withstanding the importance of all responsibilities, this section solely focuses on the duties that FIs claim to have towards their costumers. The remainder sub categories are left aside but are nevertheless included in the dataset.

To keep distinct separation between costumer responsibilities and –principles, a mnemonic is defined and applied that allows for this distinction accordingly. The data gave evidence that duties usually pertain to *transactions* concerning products, services, and information and to the commitments the related firm has towards its costumers. Principles, to the contrary, are governing behavioral traits that the related firm deems necessary concerning the *interaction* of firm representatives and costumers. A summary on the aggregate subjects in the costumer-responsibility-category is offered in the table below.

COSTUMER RESPONSIBILITIES (or: CONSUMERS, CLIENTS) *(key term, amount of codes, proportion (n=24))*		
Quality, Excellent, Suitable, Appropriate, Relevant, Comprehensable products / High quality, Leading, Responsive services / Shape, Relevant costumer solutions / Relieve costumers / Deliver adequate results, Maximum portfolio values.	15	63%
Clear, Transparant, Understandable, Efficient, Legally compliant, No misleading information / Clear, Transparant prices, terms.	14	58%
Compliants handling / Measuring costumer satisfaction, judgement.	9	38%
Innovative / Product development / Product Approval / Product review.	8	33%
Protection of costumer data / Confidentiality / Privacy.	8	33%
Sustainable, Long-term relationship with costumers.	8	33%
Duty of Care, Costumer categorisation / Fiduciary Duty / Fair dealings, Avoiding conflicts, Fund governance.	5	21%
Fair, Free competition.	5	21%
Well-educated staff / Professionalism / Personnel screening.	5	21%
Conduct business with professional intermediaires / Outsourcing activities / Diligent supplier selection.	4	17%
Awareness to financial soundness, Business continuity / Diligent, Due care of trusted funds.	3	13%
Adequate settlement of insurance claims / Risk coverage / Prevention of unintended lack of insurance.	2	8%
Encourage initiatives for financial education to improve comprehension of financial services.	1	4%

Comparing all costumer responsibilities across codes revealed quite the diversity in subject matters of aggregate items. The above table distinguishes 13 different responsibilities. Duties that pertain to the provision of products (services) *and* the provision of information are fairly equally recurring. As to the former, the product-related responsibilities appear in various expressions. There is however a commonality observed between many of these items. Quite a large amount of product-related duties do not solely claim 'good', 'quality' of 'excellence' in their statements. In stead, items are often complemented with a reference pertaining to 'costumer needs', 'best interests', 'suitability' or 'appropriateness'. For instance, a certain code (6) states: "employees shall seek to provide quality service that preserves the costumer its best interests" (...) "with regard to their aims, resources, knowledge and experience". Another (19) quotes: "the company pursues attaining maximum values of client portfolios, thereby taking into account their investment objectives and restrictions". It thus appears that FIs desire and demand providing products in a sensible manner. Information-related responsibilities pertain to properties that need be met regarding the provision of information on products, terms, prices and policies. Oft-cited properties for information are 'clarity', 'comprehensible' and 'not misleading'. It appears that the desire or requirement to express such properties is regularly for the sake of client decision-making. The examined codes pay furthermore attention to what is referred to as 'Duty of care (…)' and which gains explicit reference in 5 codes. The incidence of this subject is admittedly rather modest. A discussion is however relevant because the meaning of duty of care entails preventing legal liability that

may be caused from providing unsuitable financial services to consumers. The awareness that this issue raises is thus closely related to the intent of providing adequate services and information in order to adequately mitigate compliance risk. To clarify, this aggregate item is divided into 'duty of care', which is closest to the duty of providing consumer with appropriate, suitable products and 'fiduciary duty', which relates to the asset management practice and equals investing funds in the consumer its best interests and not taking advantage of the latter. Both matters are illustrated with a citation. As to the first, a certain code (8) states: "As financial service provider, the company is better equipped than consumers to comprehend the effects of financial products. The company therefore has a duty of care: it must prevent that consumers purchase products that are not suitable for them". This citation learns that duty of care goes beyond solely bridging information asymmetries. Rather, averting liability and thus mitigating compliance risk actually requires from financial firms to demonstrate themselves as guardians for possible ill-considered, potentially harmful decision-making behavior of their consumers. This implies that FIs do not only bear responsibility for the information and services they provide; they also bear responsibility for the choices that result from the information provided. Fiduciary duty appears in another code (9) as: "When we act as a fiduciary, we have the duty to act in the interests of the costumers whose assets we manage". The statement is affirmative on acting in the interests of consumers. Further insights are not inferred from the item, however. Providing adequate services and information is tangent to the behavior that is deemed necessary for compliance risk mitigation. Its treatise therefore recurs in the following section.

Stakeholder principles – code references to stakeholder responsibilities represent the greatest weight in the average distribution. The inverse holds to stakeholder principles, as they appear least widespread. This corresponds with the findings of Kaptein (2004), which notices that principles are generally not receiving as much attention as responsibilities. A minor incidence of items appearing as principles is probably attributed to the fact that the desired properties for behavior are covered in corporate value-references and therefore not further specified to particular stakeholders. The observed stakeholder principles are accounted as those pertaining to costumers, staff, business partners and society. The references to principles that govern the interactions between the company and its staff and amongst staff members appear oft cited. This is followed by costumer principles. Even though, staff principles occur most frequent, they are not further treated throughout this subsection. Rather, *costumer* principles are argued more relevant for revealing the business code its application of interest, as they show off the diversity of principles that companies deem desirable in their dealings with costumers. A results summary of properties pertaining to costumer principles is provided in the table below.

COSTUMER PRINCIPLES (or: CONSUMERS, CLIENTS) *(key term, amount of codes, proportion (n=24))*					
Responsbility / Observe due care, Dilligence / Suitability.	8	33%	No assaulting, Pressurizing / No improper sales motives.	5	21%
Clear, Correct, Comprehensable verbal and written communications.	7	29%	Professional Appearance / Quality.	5	21%
Keeping promises / Reliability.	7	29%	Paying attention / Know the costumer / Deliberation.	4	17%
Fair costumer treatment, Honest dealings, Integrity.	6	25%	Prompt responses.	3	13%
Transparancy, Openness.	6	25%	Self-reflective to costumers, Costumer treatment.	2	8%
Loyaty, Impartiality, Consistency / No discrimination, Preferential treatment.	5	21%			

One third of the firms (affiliated to the examined codes) desire, if not necessitate, responsible behavior in the interaction with costumers. Other code items that govern properties similar to responsibility are as well aggregated to this subject matter. The following three citations reflect the concern for responsible conduct towards costumers fairly adequate. There is a code (9) that states: “Responsibility (means) acting today, thinking about tomorrow, (…)”. Another code (23) puts responsible conduct to a more specific context, yet offering similar meaning. It cites: “I say ‘no’ to the costumer, once this is best for the latter”. Yet another (10) states: “The employee observes the necessary diligence when interacting with costumers”. The latter code continues raising awareness to the company its duty of care-policy, which is exemplifies the background to which responsible conduct is found necessary. Indeed, duty of care does not only carry the responsibility to avert undesirable costumer purchases but also requires a complementary attitude of company representatives. A similar finding is observed in the second matter that is shown in the table. It is not just the information that should meet certain properties but as well the accompanied communications. This matter is reflected in a certain code (8) as: “Contract relations with clients and all the relevant communications are governed by the principles of correctness and honest (…)”. Further analysis on costumer principles and particularly, in conjunction with the indicators of trustworthiness is treated hereafter.

In sum, this section offered comprehension and motivation on all occurred code subject that are deemed relevant for the sequel of this research. The resulted findings will be applied in the following research as it deduces the ethical from business codes that is regarded essential in order to adequately cope with WFT financial regulation. The result summaries on the remainder categories are not treated further. Yet, these are included in the enclosed dataset.

§ 8.3. Ethical behavior

This section gives an analysis on the presence of the ethical behavior in business codes that is argued necessary to mitigate compliance risk effectively. The presence of this behavior is grounded on the extent to which the meaning of certain code items is proportionate with the benchmarks, derived from theory. These benchmarks assess all relevant items on the presence of (i) trustworthiness, (ii) the awareness of providing adequate services and on the presence of (iii) behavioral traits that are defined as the indicators of trust. They furthermore consider how the items are related to the pre-defined coding categories. In other words, all statements that are related to trustworthiness are to appear as corporate values. Items that necessitate the provision of adequate services should logically appear as responsibilities towards costumers. Finally, the indicators of trust should pertain to business interactions with costumers. Hence, all statements that touch upon the third benchmark should appear as costumer principles.

The data collection process classified all code items that highlight one of the above theoretical benchmarks. The classified items are then compared across codes, which yield aggregates for each benchmark. The analysis that is laid down in this section assesses the extent to which these aggregates are proportionate to their theoretical benchmark. Though, this assessment is extended where the observed data required this accordingly. Once again, the amount of items that responds to a single benchmark does not add to the degree to which the ethical behavior is present in a single code. On the contrary, a code represents a certain a benchmark if at least one item captures it sufficiently. This brings one the following section structure: an analysis on each of the three benchmarks is offered first. All the results are compared thereafter. This determines all the codes that capture the ethical behavior in an integrated manner. These codes are considered effective for compliance risk mitigation on the premises of content.

Trustworthiness – an efficient financial sector derives its legitimacy from financial firms that are regarded trustworthy by the society in which they operate. For this reason, the financial regulation pursues that trustworthiness is preserved in the sector. Considering the pivotal role of trustworthiness between FIs and society as a whole, it should be at the root of virtually all dealings that FIs perform. As it ground all business conduct, it should raise awareness in the business codes as corporate values. The representation of these items as corporate values is furthermore consistent with the chronological sequence that exists between trustworthiness and the indicators of trust that, in fact, are the traits that determine trustworthy behavior. The incidence of items that pertain to trustworthiness appears throughout all coding categories. The references are however mostly observed in the items that are related to the categories of stakeholder responsibilities and –principles (in 8 and in 9 codes) and to corporate values (in 13 codes). The latter incidence is shown in the table below and further scrutinized thereafter.

ANALYSIS OF TRUSTWORTHINESS STATEMENTS			
	Reference in code: (*one or multiple statements*)	Total (n=24)	
Codes that capture trustworthiness in coordination with other behavioral traits.	1, 2, 4, 14, 17, 20, 24	7	29%
Codes that capture trustworthiness as top suited on other behavioral traits, or interpret it as the result of other traits.	3, 9, 10, 12, 14, 20, 22, 23	8	33%

The above table displays the incidence of references in codes that raise awareness to behavior that pertains to trustworthiness. The analysis of the observed items brought the understanding of a dichotomy between codes that treat trustworthiness as any other form of behavior and those codes that endorse its pivotal role or view it as the outcome of adhering to other traits. This dichotomy is substantiated by two opposing examples. As to the first, a code (14) states: "In dealings with internal and external parties, one behaves professional, honest, trustworthy without pursuing any private interests". This statement does not central trustworthiness such as it is intended by theory, because its importance relative to other behavioral traits is not particularly emphasized. Contrary to the latter, another code (3) does capture adequate sense for the role of trustworthiness and its relation with other traits: "the company provides an important societal role, particularly in the provision of financial services. This role can only be fulfilled once society and specifically, costumers and business relationships are confident about the professional, sustainable and honest manner in which the company operates socially and towards its relationships". This item raises awareness to significance of trustworthiness for the sector, the society. Also, it offers behavioral properties that are regarded important for gaining the desired confidence. Items that recognize both, or either one of these two criteria are considered closest to the theory. The codes that are related to these items are shown in the green bar of the table. This gives the understanding that one-third of the considered firms gives adequate interpretation to trustworthiness in their business code.

Adequate services – an important vehicle for the preservation of trustworthiness is laid down in the provision of adequate financial services towards costumers. As long as FIs succeed in offering costumers with the necessary means for making adequate decisions, they will bridge information asymmetries effectively. In turn, this reaffirms the trust placed in them and which is required for the preservation of an efficient sector. Even though theory considers adequate services and efficient information as more or less interchangeable concepts, it appears that business codes perceive them pretty much as separate conditions, that should both be faced in order to bridge asymmetries sufficiently. Meeting both conditions seems intuitively plausible. Indeed, information substantiates the adequacy of the services offered. Thus, once business codes respond to both services and information, they are deemed proportionate to theory. A summary on all relevant costumer responsibility-items is shown in the table below:

ANALYSIS OF STATEMENTS TO ADEQUATE SERVICES, EFFICIENT INFORMATION				
		Reference in code: *(one or multiple statements)*	Total (n=24)	
ADEQAUTE SERVICES	Representing / Securing costumer interests, Needs.	2,6,8,9,11,13,14,15,17,19,20,21,23,24	14	58%
	Appropriateness, Suitability.	6,8,15,19,20,23	6	25%
	Understandable, Comprehensable, Clear.	3,8,15,20,23	5	21%
EFFICIENT INFORMATION	Clear, Transparant.	3,6,8,12,14,15,19,22	8	33%
	Comprehensable, Understandable.	3,8,12,14,15,19,22,23	8	33%
	Complete, Relevant for costumer decision-making.	2,3,9,12,15,19	6	25%
	Honest, Not misleading.	6,13,17	3	13%
	Internally, Externally compliant.	8,19,21	3	13%
	Timeliness.	3,9,14	3	13%
Codes that capture concern for providing both adeqaute services and efficient information.		2,3,6,8,9,13,14,15,17,19,21,23	12	50%

The awareness for adequate services and efficient information appears in the examined codes as corporate value-items (in 8 codes) and as costumer responsibility-items (in 19 codes). The above table shows all responsibilities for the provision of adequate services in the upper part. Responsibilities to efficient information are shown in the table its lower part. Considering the provision of services, it appears that codes express 'adequacy' in diverse manners. There is however a common denominator across the selected items since they all central a concern for the costumer to whom they provide services. Hence, this is considered proportionate to theory. The awareness for services that correspond to costumer needs, interests is oft cited. From the codes that emphasize appropriateness and suitability is assumed that they approach the theory more than proportionally because, beyond expressing their duty regarding services, they make explicit their duty of averting possible ill-considered costumer decision-making.

Similar to adequate services, efficient information is as well differently expressed. Though, all these items include informational properties that contribute to costumer decision-making. Although some properties are more recurring than others and yet others are more explicit on improving decision-making, they are all regarded equally proportionate to theory, since the theory is not offering additional clarification on information efficiency. This brings one to the determination of business codes that raise concern for both elements. It appears that one-half of the examined codes address both services and information. The manner in which both elements may be embodied in a single code is finally illustrated with an example. As to the adequacy of services a code (15) cites: "We have a duty of care towards our clients. Whatever the service we offer, we make a thorough evaluation to ensure that it fully meets the client its expectations". This similar code then continues: "The company is committed giving clients detailed product information so that they can make appropriate (investment) choices".

Indicators of trust – theory argues that trustworthiness is not a behavioral trait on its own. Rather, it is indicated on the presence of other traits. A set of attitudinal attributes is defined that allow for gaining and preserving trustworthiness. These attributes are integrity, openness, benevolence and competence. Together, they are defined as the indicators of trust. Thus if financial firms are to preserve trustworthiness, particularly from the perspective of costumers, they ought to guide code receivers on each of these indicators. The analysis that is laid down in this section therefore takes into account all code items pertaining to the indicators of trust, i.e. indicator-items. Since these behavioral traits need be demonstrated in costumer interaction it would be theoretically proportionate to particularly focus on indicator-items that are viewed as costumer principles. Yet simultaneously, this delineation leads to omitting a significant number of indicator-items, since they are largely represented in the corporate values category. To respond to the latter finding, this subsection therefore concludes with an understanding on all codes that address each of the indicators provided that the above delineation would not hold. Though, the remainder of this analysis solely concerns the indicators-items that are seen as costumer principles. A summary on aggregates of the latter code items is presented below.

ANALYSIS OF STATEMENTS ON INDICATORS OF TRUST			
Behavioral traits (or: attidunal attributes)	Reference in code: *(one or multiple statements)*	Total (n=24)	
Honesty / Integrity.	3,6,11,13,14,19,24	7	29%
Fairness.	2,6,11,9	4	17%
Reliable, Keeping promises.	1,8,12,17	4	17%
(=) Integrity	1,2,3,6,8,11,12,13,14,17,19,24	12	50%
Openness / Transparancy.	6,9,11,14,15,17,19,23,24	9	38%
Comprehensable communication.	3,8,23,24	4	17%
(=) Openness	3,6,8,9,11,14,15,17,19,23,24	11	46%
Balanced / Righteous / Consistent decison-making	6,9,10,15,17,21	6	25%
Diligence / Due care / Responsible.	4,14,15,23,24	5	21%
(Costumer) Loyalty.	11,14	2	8%
(=) Benevolence	4,6,9,10,11,14,15,17,21,23,24	11	46%
Professional, Competent.	4,6,11,14,22	5	21%
Reliable, Consistent.	1,8,12,17	4	17%
Qualified / Skilled / Experienced.	8	1	4%
(=) Competence	1,4,6,8,11,12,14,17,22	9	38%

The above table offers an account on all codes that address the indicators of trust according to one or multiple behavioral traits. The indicators are depicted in the green bars and preceded by their aggregates. From the results follow that business codes raise the utmost awareness to integrity. While not shown, code items that point to integrity appear throughout all coding categories. In fact, 22 codes raise importance in their corporate values for integrity adherence. Several stakeholder principles raise awareness for integrity. It is considered important in the interactions with suppliers (in 3 codes) and with employees, competitors (both in 2 codes).

Though, the majority of integrity-principles points towards costumers. Integrity conduct is claimed required in fifty percent of the examined codes. A certain code (19) raises this matter as follows: “We are fully aware of that we do not manage our own funds but those of our clients. In order to live up to the trustworthiness required, we are committed adhering to the highest standards of integrity. We demand integrity in all internal and external transactions, consistently and without any compromises made”. This particular statement endorses theory in that trustworthiness is enshrined in other behavioral traits, such as integrity. Other items are more specific on the behavioral properties that need be met to give meaning to integrity. For instance, a code (12) states: “We want to become and maintain a partner for our clients that keeps its promises, that makes it easy to do businesses with”. This item expresses integrity more explicitly since it desires that one should keep its promises. On the whole, the relative great incidence of all code items pertaining to integrity may be attributed to its generic nature. Integrity is furthermore greatly intertwined with ‘ethics’ and if one considers a business code as an interpretation to the ethics desired within a corporate environment, it seems common sense that they cite statements that demand integrity from code receivers, accordingly.

Another indicator that requires additional explanation pertains to benevolence. Drawing some attention to this indicator follows from the constituent aggregate behavioral traits, which seem rather diverse. A theoretical recap on benevolence demonstrates it is associated with having concern for another, not taking advantage of others vulnerability and also perform acts in the interest of another. The observed data then allowed aggregating benevolence-items into those that raise, ‘being balanced, righteous and consistent in decision-making’, into ‘being diligent and responsible’ and into ‘demonstrating loyalty’. It is argued that these aggregates capture this indicator fairly adequate. This is substantiated with an example that stresses diligence. Code (4): “Our point of reference is the provision of the best possible services. Therefore, we need to observe sufficient diligence in verbal and written communications with clients”.

Collecting all costumer principles that raise adherence to one of the above indicators enables determining all codes that stress each indicator accordingly. Indeed, it is theoretically argued that these four characteristics together allow for the gain and preservation of the confidence of consumers in financial intermediaries. A summary on the coverage of indicators is presented:

COVERAGE OF INDICATORS OF TRUST (as costumer principles)					
Number of indicators covered	None	One	Two	Three	All
Coverage is observed in codes	5,7,16,18,20	2,10,13,21,22	1,3,4,9,12,15,19,23	8,24	6,11,14,17
Number of codes	5	5	8	2	4
Proportion (n=24)	21%	21%	33%	8%	17%

The above table indicates that 79 percent of the examined codes cover at least one of the four behavioral properties that allow for the preservation of trustworthiness. More importantly, no more than 4 financial firms stress all indicators in their related code. This finding appears to be modest given the successive outcomes from the assessment of the former two benchmarks. However, the data also showed that codes often propagate behavioral traits that are not made explicit in terms of stakeholders. These items are viewed as values and hence, omitted from the above analysis. If leniency was applied and both, principles and values were considered in the analysis, it would appear that 13 of the 24 codes capture all behavioral traits that facilitate trustworthiness. Even though these indicators are not simply explicated, it is nonetheless true that a slight majority of business codes covers them without exceptions. Regardless of their intent, these 13 codes still capture a sense that propagating these four behavioral traits allows for gaining and preserving trustworthiness and hence, for mitigating compliance risk.

Results summary –by now, all benchmarks are discussed that all together ground the degree to which business codes mitigate compliance risk by content. It is therefore justified to divide the total assembly of codes according to the extent to which they express the meaning of these benchmarks. If one discards all the section its considerations, solely taking into account the consistency of wording, one would come to the conclusion that one-third of all business codes responds to each of the domains. However, if one scrutinizes code items on whether they are theoretically consistent with all benchmarks, it leads to the results that are shown below:

RESULTS SUMMARY ON ETHICAL BEHAVIOR INFERENCES

Application for compliance risk mitigation according to code content	Observed in code(s):	Total (n=24)	
No proof for effectiveness	1, 4, 5, 7, 16, 18, 24	7	29%
Effectiveness grounded on one benchmark	2, 8, 10, 11, 12, 13, 15, 19, 20, 21, 22	11	46%
Effectiveness grounded on two benchmarks	3, 6, 9, 17, 23	5	21%
Effectiveness grounded on all benchmarks	14	1	4%
Effectiveness grounded on all benchmarks (including corporate values as indicator-items)	9, 14, 23	3	13%

The results show that 7 codes capture neither proof for compliance risk mitigation. Two-third of all codes express items, which are proportionate to at least one and up to two benchmarks. These codes partly confirm on being a means for compliance risk mitigation. However, under the application of all considerations made, it appears that only one code is able to resist all theoretical requirements. Hence, this code propagates ethical behavior as intended by theory. If one interprets corporate values as valid indicator-items, it seems that 3 codes are considered effective for mitigating compliance risk according to the ethical behavior that they propagate.

§ 8.4. Control orientation

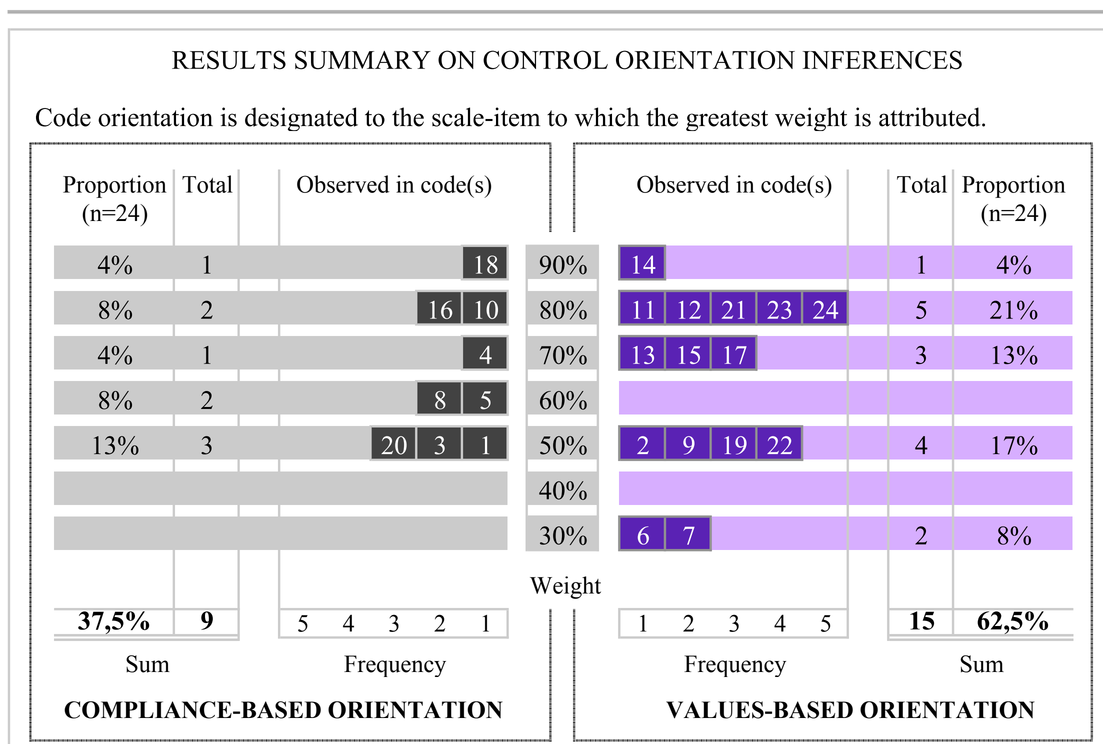
The data comprehension and the ethical behavior inferences proved that business codes differ in their preferences for the ethical behavior they pursue and for the conduct they require from code receivers. Likewise, there may be diversity in the manner to which business codes guide their audience towards what they necessitate. These approaches are reflected in code design. This section reconciles the observed code designs with that which responds to the regulatory design of WFT. It thereby completes the research on the application of business codes for compliance risk mitigation. Theory highlighted the implications of the regulatory design for guiding organizational behavior. Besides, it construed the code design that offers adequate response to these implications. In other words, WFT proposes principle-based regulation. The design of codes is then expressed by their control orientation, which ranges from compliance- to values-based. Reconciling both reveals that a values-based code orientation is argued best responding to the principle-based design of WFT. Hence, the application for compliance risk mitigation according to design is affirmed once values-based code orientations are observed.

In order to establish the orientations of codes, all the constituent items are defined according to five parameters. These parameters are equally weighted and enable expressing individual code items on a four-item scale. A code orientation is set once all constituent items are scaled and it is designated to the scale-item to which the greatest weight is attributed. While it allows for a straightforward determination, it is yet true that this manner does not capture whether the observed code orientations are potentially effective for guiding behavior. Therefore, it is believed that code orientations should have persistence, which may be motivated by means of discussing potentially observed inconsistencies in code design. That said, the structure of this section is a follows: a brief account on the parameters and the observed values is provided first. This passes into a summary on the code orientations observed. These code designs are finally subject to a discussion on whether they reflect the persistence for being effective.

Parameters and values –The code its control orientation is derived from the orientation of all constituent items. The orientation of code items is assumed highlighted in parameters that are related to (i) coding category, (ii) focus, (iii) level of detail, (iv) pronoun and (v) tone. As to the second, the definition of Mathews (1987) on focus appeared sufficient for a consistent interpretation. Items are interpreted as internal when they express ‘conduct against the firm’ and viewed as external when they highlight ‘conduct on behalf of the firm’. It is observed that the focus of items is closely linked with the corresponding coding categories. Yet, this finding is rather evident since responsibilities and principles express conduct against stakeholders and hence, conduct on behalf of the firm. On the contrary, rules and items related to compliance and implementation central the company and hence, these items cite conduct against the firm.

The diversity of focus that is observed in codes therefore keeps pace with the distribution of code items across the coding categories. The guidance of interpreting a code its level of detail is gained from Farrell & Farrell (1998). This comes down to labeling items as high-detailed if they contain operational definitions. If the latter is omitted in statements, they are interpreted as low-detailed. Operational definitions are assumed present if items comprise unconditional prohibitions. To illustrate, a code (10) cites: “The employee is prohibited to represent clients of the company in their own names”. Statements are as well considered high-detailed when they capture anecdotal examples and also, when they offer conclusive solutions. A relative large share of code items is interpreted as high-detailed on the premise of this latter condition. In particular, because one-third of the codes transfers code receivers to other provisions that that are external from the considered code. In turn, such transfers are deemed conclusive. An example from a code (8) that provides a reference: “All employees are required to observe the firm its instructions manual on insider dealing. It says that you should be extremely cautious with information that could be regarded as insider information”. On the whole, the incidence of high-detailed code items appears modest. The average share of such content amounts to 19 percent of the content, which is observed. The codes their detail level is thus considered low.

Results summary - defining code items along the above parameters, allows expressing them on a scale that considers *compliance-based*, *predominantly compliance*, *predominantly values* and *values-based* as appropriate scale-items. Code items that are similar in terms of scale are then aggregated, revealing the distribution on which the designation of code orientations is based. The code orientations that result from this designation are summarized below:



The above table displays all business codes by their most-prevalent scale-item. Even though code orientation is possibly expressed according to four different designations, it appears that all examined codes neither express the two intermediate scale-items as most prevalent. Hence, the code orientations observed are either compliance-based or values-based. As to first, all the related business codes are shown in the left part of the table. The weight that is attributed to this scale differs from around 50 percent (observed in code 1,3,20) to 90 percent (observed in code 18) across codes. The sum that is presented in this table part shows that 9 business codes are regarded compliance-based. The vast majority of examined codes expresses the opposite orientation, however. Some business codes are more convincing in the extent to which they are values-based designed. This is particularly true for those codes of which 70 to 90 percent of their content is considered values-based. An amount of 9 codes falls within this bandwidth. Others are less convincing and in particular, those codes of which no more than 30 percent is considered values-based (observed in codes 6 and 7). In all, 15 business codes are considered affirmative on the ability to mitigate compliance risk given the orientation they express. Yet, these codes likely differ from one another as to the degree to which they are effective guiding means. This is further motivated in the following discussion code design persistence.

Discussion on code design persistence –While it is argued that a values-based orientation offers adequate response to the implications of principle-based financial regulation of WFT, it is yet true that these values-based codes are neither equally effective in guiding code receivers towards desired ends. In fact, some codes that are deemed compliance-based may be more superior in terms of achieving what they intend. Otherwise stated, they need not only express consistency with the regulatory design; codes need as well be structured such that they guide behavior effectively. To this end, the observed code orientation need have certain persistence. The theory raises two aspects that allow discussing the persistence of code orientations. These aspects consider the clearness of code structure and the presence of contradiction in messages that infringes code effectiveness. The discussion treats both aspects in the order mentioned

A code should have a clear structure and therefore, the composers should ascertain the type of code they have in mind for their company (Kaptein, 2004). The conviction to which values-based codes are brought therefore offers a link for discussing their clearness. This considered, there is a dichotomy observed in values-based codes since 9 codes present a decent, to strong orientation, while the similar orientation is modest to even doubtful for the remainder 6 codes. Structures that are deemed doubtful are related to these codes of which the values-based scale appeared prevalent at a humble 30 percent. This is observed for code 6 and 7. These codes lack consistency; particularly as their code items are dispersed equally across all four scales.

Business codes that are not convincing on their structure also contain a considerable amount of items that are scaled to the intermediate items, which are predominantly compliance and – values. Code items that are assigned to these two scales lack structure by definition. The less convincing codes furthermore intend to color all categories of the coding structure. Hence, they express values, responsibilities and principles next to standards and rules and statements pertaining to compliance and implementation. The following heuristic is therefore applicable: business codes that intend to participate on all areas for guiding behavior will end up having a moderate impact on each. They will likely not achieve what they intend from code receivers.

The presence of contradicting messages in business codes is slightly noted in the former part of this discussion. In particular, wherever code items are scaled to one of the intermediate positions. It is known that items are scaled according to five parameters and these expose their character accordingly. Two parameter values are considered potentially opposing and these relate to *level of detail* and *tone*. This is explained in Farrell & Farrell (1998) as it states that once code items lack operational definitions, they should provide code receivers with the discretion to make their own ethical choices. Items should therefore not be authoritatively put, which is similar to items that are expressed as *prescriptive* in the present research. If, in fact, operational definitions are omitted in prescriptive items, they likely express contradiction and this infringes the effectiveness of the statement. Exploring business codes on such infringing statements brought the idea of computing a coefficient to express the level of contradiction for each code. This number is simply the weighted count of high detail-items divided by the weighted count of prescriptive-items. If this result expresses values between zero and one, the presence of contradicting messages is raised. Indeed, the amount of high-detailed content appears exceeded by the amount of prescriptive content. Arranging all codes on the computed coefficients, provided the picture that 17 codes capture some proof of contradiction. The other 7 codes appear to omit contradiction in their messages in terms of level of detail and tone. In addition, the latter codes are as well relatively clear on their structure. These inferences thus strengthen the argument to ensure consistency in all considerations related to code design.

§ 8.5. Ethical behavior & control orientation

The above discussion allows dividing all the considered business codes into those that express an orientation that is different from theory, those that are less convincing but nevertheless values-based oriented and those that are equally proportionate to theory. These three classes may then be compared with the inferences on code presence of the ethical behavior. Such a comparison offers knowledge on the cohesion that exists between both properties that both add to the code its application for compliance risk mitigation. It thereby provides the finding that is considered the prelude to the central research question. The summary is shown below:

BUSINESS CODE APPLICATION FOR MITIGATING COMPLIANCE RISK		
	ETHICAL BEHAVIOR	CONTROL ORIENTATION
NO EVIDENCE	1, 4, 5, 7, 16, 18, 24	1, 3, 4, 5, 8, 10, 16, 18, 20
(sum, proportion, n=24)	7 (29%)	9 (37,5%)
PARTLY AFFIRMATIVE	2, 3, 8, 6, 10, 11, 12, 13, 15, 17, 19, 20, 21, 22	2, 6, 7, 9, 19, 22
(sum, proportion, n=24)	14 (58%)	6 (25%)
AFFIRMATIVE	9, 14, 23	11, 12, 13, 14, 15, 17, 21, 23, 24
(sum, proportion, n=24)	3 (13%)	9 (37,5%)

The above data summarizes the empirical research. Inferences on ethical behavior and control orientation are presented side by side in the table. The left part comprises the former aspect. Codes that offer no evidence on the presence of ethical behavior are similar to the ones that rejected each of the benchmarks presented. Codes are partly affirmative if they respond to one and up to two benchmarks. The share that is considered affirmative equals the codes on which all considerations hold provided that the earlier-stated leniency is applied. The inferences on control orientation are captured on the similar scale. 'No evidence' pertains to all compliance-based observations. The less convincing values-based orientations are considered to be partly affirmative and finally, the latter scale applies to codes on which persistence is observed.

Combining inferences and in particular, the similar scales of the table, exposes the degree to which codes withstand all requirements that add to the application of interest. However, there are 5 codes for which it is not likely that they are effective for mitigating compliance risk as they omit, unanimously, the evidence that should indicate their potential. The less promising codes are underlined and shown in the upper scale. By contrast, the table reveals two codes that are able meeting all raised qualifications and hence, they expose their potential for being an effective means, given their content and design. (See: codes 14, 23 in 'affirmative scale').

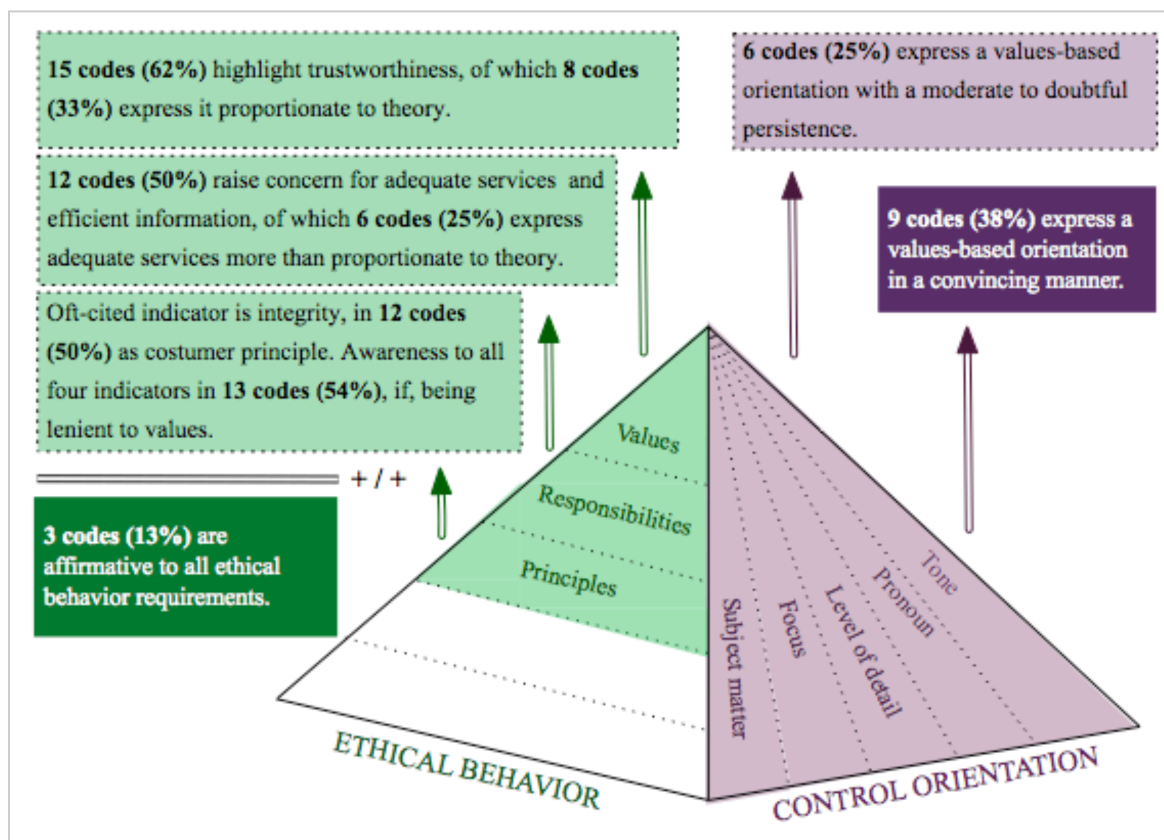
Yet, the table unveils another interesting observation: the vast remainder of business codes appears effective on only their content or design or they appoint both in a slight affirmative way. A plausible explanation for this large share of intermediate codes is as follows: they tend to capture great diversity, both in terms of subject matter and structure. As to the first, codes are apt to address multiple instances for which they believe it is necessary to provide ethical descriptions. The structures furthermore reveal that codes sequentially apply different means for guiding behavior and sometimes even simultaneously. The downside of such excessive diversity is that business codes become generic documents, which eventually hinders them to give effective meaning to a specific application for codes, such as mitigating compliance risk.

Chapter 9 – Conclusion, limitations and recommendations

§ 9.1. Reconciling theory and empirics

The institution of a business code in financial firms may have the potential to reduce the inability of coping with legal requirements, in particular those that arise from WFT financial regulation. Whether such application is considered effective, is argued depending on whether a business codes inspires code receivers to pursue the ethical behavior, which is responding to the underlying purposes of WFT. It is furthermore grounded in the manner to which it guides towards the desired ethics. This is expressed by the code its control orientation. The theory elaborated on these two crucial elements. The theoretical conclusion finally gave meaning to the ethics and control orientation by merging them in a three-dimensional pyramid that should represent a business code. The meaning of both elements became presented on each of the visible edges in the figure. Figuratively put, the preceding research confronted each of these edges with empirical findings. A side-by-side account of theory and empirics then reveals the consistency between them. The results of this theory-empirics-reconciliation are as follows:

Exhibit (17) theory-empirics reconciliation – the pyramid offers a schematic representation of a business code, accompanied with a side-by-side account on theory and empirics. The latter is added in the boxes with which the figure is surrounded. This reconciliation should offer a meaningful response to central research question.



The ethical behavior that WFT financial regulation provokes is supposed reflected in business codes as *costumer responsibilities* to provide adequate services, in *corporate values* that raise attention to the importance of trustworthiness and as *costumer principles*, which facilitate the behavioral traits that need indicate trustworthiness. This is depicted on the left pyramid-edge. For each of the three pronounced levels, the theoretical assumptions are, in greater or lesser extent, confirmed in the empirics. One-half of the examined business codes are particularly pronounced in their duties to provide adequate services. The related firms truly have in sight that it requires both, the provision of adequate services and efficient information to bridge information asymmetries between them and their costumers. In fact, one-fourth of the codes expose commitments that are more than proportionate to theory as they raise awareness to the firm its duty of care, which implies preventing costumer from doing ill-reasoned or unsuitable purchases. Though, commitments for providing adequate services need be accompanied in business codes with guidance on behavioral traits that are argued crucial for living up to the commitments claimed. This boils down to trustworthiness and which is indicated by the traits of openness, integrity, competence and benevolence. One-third of all codes raise importance for trustworthiness as they endorse the pivotal role of this state of being for the preservation of an efficient financial sector. A slight majority furthermore raises all indicators of trust. This statement does involve a lenient application of theory because of the observed regularity that codes are not pronouncing principles to stakeholders. As said, within each theoretical level, there is cohesion between theory and empirics. However, on a comparison across levels, only three codes actually persist in guiding ethical behavior in a theoretically consistent manner. Hence, these codes are considered effective for compliance risk mitigation according the requirements they raise on ethical behavior.

The control orientation expresses the design of the code: the manner on which it guides code receivers to the intended behavior. A values-based orientation is considered proportionate to theory. Such system invokes desired ethics by raising awareness to ethical aspirations and through the adoption of guiding principles, providing code receivers with direction to make their own ethical choices. This is argued an adequate answer to the principle-based design of WFT. The business code assembly showed a breakdown of compliance- and values-oriented means. 63 percent of the considered codes reveal a theoretically consistent orientation. A scrutiny on values-based oriented codes furthermore exposes a dichotomy: on the one hand, there is the share that expresses a consistent and convincing proposition of guiding behavior. On the other hand, there are a number of values-based codes for which it is argued that they lack the structure for being resolute to code receivers in the way they guide behavior. In all, a share of 38% percent (9 codes) of all examined specimens cover a convincing values-based orientation and hence, these are considered effective as to their design.

§ 9.2. Conclusion

*"What **ethical behavior** and **control orientation** should be reflected in business codes of financial service providers in order to effectively mitigate the compliance risk stemming from WFT and its principle-based regulatory design?"*

The reconciliation of theory and empirics substantiated the ethics and control orientation that should be reflected in codes for being an effective means for compliance risk mitigation. The condition that both elements need be consistently reflected in codes has yielded the following distribution of concluding results: **two codes** out of **twenty-four codes** are **fully affirmative** and hence, these codes are considered effective applications for compliance risk mitigation. In contrast, **five codes** offer **no proof** for being a means to intended ends. Finally, the remainder **fourteen codes** are concluded **partly affirmative** for compliance risk mitigation.

The observed distribution of outcomes leaves one with the following: the number of codes that is considered effective appears modest. Yet again, it is rejected that the theoretical criteria for assessing codes comprises some utopian ideal. Otherwise, there would be neither code responding to each of the requirements and in fact, two appeared fully consistent. A sensible reason for the scarcity of unanimously positive outcomes is argued pointing to the amount of partly affirmative specimens, i.e. intermediate codes. The unraveling of this substantial share is as follows: there is a tendency in business codes of adding too great diversity, both in terms of subject matter and control orientation. This diversity actually ceases such codes to offer a consistent response to a specific application such as compliance risk mitigation.

The effectiveness implications of capturing an unrestrained diversity in business codes remain ambiguous. However, their potential is not very promising either. As said, commitments gain substance if they are added with guidance by means of expressing behavioral properties. In return, providing solely properties without commitments will likewise not achieve intended ends as the latter offers the meaning and the timing for expressing these properties. Business codes should therefore internalize both and not only either of the two. As to orientation, it is argued that codes need persist in their structure for guiding code receivers towards a desired state. This reduces contradiction between and within statements, which infringes the code its effectiveness. As shown, intermediate codes are usually not very clear in the structure they expose. In all: does this argumentation degenerate the requirements of intermediate codes in empty rhetoric? This remains unanswered, but the following heuristic does capture the essence of the suspicion raised on the effectiveness of intermediate codes: *business codes that intend to participate on all areas for guiding behavior will end up having a moderate impact on each. They will likely not achieve what they intend from code receivers.*

§ 9.3. Limitations

Choosing content analysis as the research method of interest has its merits. It is argued earlier that it allows conducting research in an unobtrusive manner: an examination of codes allows considering their effective without intervening into the social environment in which they have their intended impact. This unobtrusiveness aspect is quite appealing considering the research domain. Particularly, since measuring perceptions on code effectiveness is prone to validity problems caused by social desirability biases among respondents. Weaver (1993) considers this concern as prevalent. Though, content analysis has its pitfalls that need be circumvented. Besides, the research method has its limits, which influences the interpretation of the results. To account for both matters, this section explains the taken precautionary measures and it will indicate the limits of the research. This former is built around two concerns that influence the soundness of the conducted content analysis. These are *validity* and *reliability.* The section closes with mentioning specific limitations that offer indication on the reach of the findings.

Validity – a measuring instrument is said to have validity once it measures what it purports to measure (Janis, et al. (1943) in: Krippendorff & Bock, 2008). If one specifies this definition to the conducted content analysis, then validity is to the extent to which theoretically relevant features, which are concealed in the initial code content, are eventually reflected in code items (Krippendorff & Bock, 2008). The quality of this relationship between the initial code content and code items cannot be considered independently from the data collection process, as it is precisely the purpose of the coding process to establish how the theoretically relevant features are observable in the initial content of business codes (Krippendorff & Bock, 2008). Because validity is only viewed in conjunction with the coding process, it can be only determined on basis of argumentation (Ibid). Following the above reasoning, it is argued that all code items sufficiently capture theoretically relevant features from the initial code content. At first, the coding structure and accompanying instructions are mostly derived from the oft-cited study in Kaptein (2004). In addition, the coding process has not remained insensitive for regularities that were observed but which could not be adequately captured in the initial structure. For these instances, iteration is used in order make the coding structure more compatible to the data. Finally, most findings are accounted for their theoretical consistency with the initial data, because statements on the empirics are regularly substantiated on citations derived from those business codes that served as the inferential source.

Despite the applied diligence for ensuring consistency between initial data and code items, an important source for validity-concern remains intact. This pertains to the nature of the data from which code items are collected using content analysis. While this method offers means for a systematic recording of data from text messages, it does require *interpretation* of the

initial text to come to inferential data eventually. The interpretation of the researcher thus has an influence on the actual research results. It is not possible determining the magnitude of this influence. Yet, the overall impression on the observed initial code messages is, that they are not difficult to grasp and unambiguous on their meaning. The influence of interpretation may therefore remain moderate. Yet again, this claim cannot be supported by any means.

Reliability – a measuring instrument is said to have reliability once it gives the same results constantly (Janis, et al. (1943) in: Krippendorff & Bock, 2008). Unlike validity, reliability is argued easily assessed in Krippendorff & Bock (2008) because it can be performed without any reference to the substance of the coding process. Code items that resulted from the data collection can be assessed on whether they are identical, either in time or simultaneously by comparing the results of two or multiple coders. Reliability therefore becomes a matter of computation rather than argumentation (ibid). While computing reliability is highly relevant for demonstrating it, the use of sufficient measures is argued equally important as it prevents the occurrence of inconsistency. The subsection therefore offers accountability for the applied measures. These are reflected in coding instructions that ensure the preservation of consistent, unambiguous data. It is evident that the set of coding rules from which the process departed were derived from the content analysis in Kaptein (2004). This initial system became then further modified to keep up pace with the data once the initial system lacked sufficient rigor. This modification is done according to an iterative process, which is equivalent to the process that ensures the validity of resulting code items. All additional rules that resulted from the iteration are included in the dataset. This allowed verification of data consistency during the analysis. One should furthermore be able to replicate the results with the instructions at hand.

Finally, the remainder of this section explains three matters that indicate the boundaries of the research findings. These are related to (i) the meaning of code items, (ii) code effectiveness and (iii) the scope of the compliance practice. All three matters are motivated per item below:

Code item meaning – As said, an examination of business codes indicates the responsibilities that financial firms deem important and on which they offer guidance. Yet, one is not certain about the true meaning that codes proclaim. Reasons to doubt the unambiguous meaning of business codes are motivated in Emmelhainz & Adams (1999) as they state that business codes are means for window-dressing rather than operational control (in: Helin & Sandstrom, 2007). Kaptein (2004) further argues that content analysis will not unfold whether a message is raised out of ethical concern or out of financially grounded motives. It may be possible to retrieve intrinsic code meaning from triangulation. But hence, this requires additional study in order to verify these resulting findings with the findings of the present research.

Measuring code effectiveness – The thesis introduction already proposed that business codes are an a priori means for intended needs. If a code is truly effective for mitigating compliance risk can only be ascertained on verification of presence, content and design of business codes with the extent to which related firms violate requirements within a set time period. Though, such research design lacks feasibility. In general, there are difficulties of gaining permission on collecting data of company violations (Trevino et al, 2006). This concern is arguably even more apparent in the financial services industry, as the related firms are argued particularly prone to the disclosure of data that may jeopardize their reputation. Another reservation to the effectiveness of the examined business codes is related to the design parameters on which the code its control orientation is based. While these measures are argued valid means to discern different approaches for guiding behavior in business codes, there is uncertainty on whether they are effective in general. It is considered that there is simply too less empirical evidence, supporting claims that certain parameters and –values are more superior than others.

The scope of the compliance practice – the findings provide a notion on the manner to which financial firms intends mitigating compliance risk on the application of business codes. This insight should not be exaggerated, however. Cited studies, such as (Lindsay et al. (1996) and Schwartz (2004) demonstrate that firms may apply multiple means to come to similar ends. This insight is furthermore confirmed in the research, as it appears that one-third of examined codes transfers code receivers to other instruments that are independent from business codes. Leaving aside the existence of other sources for compliance risk, the above confirms that it is not possible to indicate the effect of other compliance instruments using the present findings.

§ 9.4. Recommendations

Suggestions for recommendations emerge from several sources: from the limitations that are motivated in the former section. Besides, the theory offers motive for further deepening: some theoretical perspectives warrant better delineation. In addition, certain assumptions lacked sufficient rigor or certainty due to ambiguity in prior research on which the assumptions were based. Taking everything into account, then there are two subjects considered highly apparent for recommendations. These relate to the *scholarly basis of the compliance discipline* and to *business code effectiveness*. Both matters are further motivated in the course of this section. In addition to each of these recommendations, a brief outline is provided for a future research. The reason for accompanying suggestions with research means follows from the idea that theory will only develop unless its assumptions are adequately verified in empirical findings. Otherwise stated, new research allows theory to progress. Recommendations and concluding research outlines are described in the remainder of the section.

Defining compliance – the compliance discipline is gaining visibility in the financial services industry. Several causes have led to an increase of the exposure to compliance risk: there is a continuous renewal of financial regulation, the monitoring of regulated firms has intensified and financial penalties for non-compliance have become more stringent. In order to cope with these developments, regulated firms have intensified their efforts to keep pace with relevant regulation and for implementing these requirements into their businesses accordingly. While it is not suggested that such developments should trigger scholarly attention; it is nevertheless true that the compliance discipline does not stand on its own. In fact, its theoretical meaning is derived from various scholarly domains. It owes existence to financial regulation, business ethics and ethics managements and also to management control and risk management. While theory highlights the interpretation of compliance in some of the domains, it requires further delineation and research to reveal effective compliance and its determinants. The need for such enquiry is not unnecessary as theory pointed to the presence of contradicting compliance perspectives, which infringes effective compliance (see: page 48, the ethical paradox).

An integration of the recommendation to delineate the compliance discipline with the current research can be represented as follows: it is highly likely that financial service providers use multiple means for the preservation of compliant conditions. This gives rise to broaden the present research with an enquiry on other compliance instruments. Research may appoint to the cohesion or contradiction observed between them or it may focus on the examining of the presumption that certain instruments are key to certain compliance perspectives (…).

Business code effectiveness – the ascertaining on whether codes produce better cultures need not be based on the mere presence of the document in an organization. In fact, research need be shifted to examining those code elements that pertain to their effectiveness. Raising this recommendation is argued highly apparent because much evidence on the determinants of effective code design is merely backed with theoretical reasoning. Verifying the effectiveness of these reasoned parameters according to an empirical research has so far been considered as quite uncharted territory. Further enquiry on business code effectiveness and in particular, its determinants, will eventually lead to more thoroughness on effective design parameters.

An integration of the above recommendation with the present research should depart from the resulted findings. By now, it is possible expressing all examined codes on a scale from high to low as to their considered effectiveness to mitigate compliance risk. These results may then be verified by surveying code receivers on the effectiveness they perceive. A reconciliation of results offers meaning on whether the considered effectiveness is actually perceived as such.

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