

# **Transparent business practices in leading companies in Argentina: current situation and trends\***

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## **I. Introduction**

Latin America is a complex region when it comes to dealing with compliance and transparent business practices, high corruption levels being the most critical problem. Year after year, Transparency International's Corruption Index lists almost all Latin American countries in the category of "rampant corruption" and in last year's ranking only Chile, Uruguay and Costa Rica were the exception to this rule.<sup>1</sup> Argentina ranks 106<sup>th</sup> among 180 countries with an indicator of 2.9 (any indicator below 5 belongs to the "rampant corruption" category). Regardless of whether this index -which is based on perceptions-, is accurate and precise, the gap that exists between Argentina and less corrupt countries is huge and most worrisome is the fact that this gap is not only not narrowing but has remained stable over the years.

In the meantime globalization trends in business have led to a dissemination and homogenization of formal processes transforming the pace of change in business practices at many levels, leading to innovations that would have previously demanded a longer time framework and would have certainly remained confined, at least in the first stages, to the realm of highly industrialized, developed countries. This situation has thus opened up a new scenario where old assumptions about the speed of transformation and innovation must be left aside and the pace of changes regarded under a new light.

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<sup>1</sup> Transparency International, 2009

The question is then to address how in this context of accelerated change, deep-rooted habits embedded in business practices - multinational or otherwise- interact with this new environment: which are the strategies in place to face the challenges of establishing a new culture of solid, long term good business practices.

In a first part, results from a compliance survey conducted in Argentina will be presented, offering a detailed description of the main covered aspects. Secondly, an analysis will be offered of the survey together with further assessments concerning the context of those results as well as additional indications about future paths of inquiry. Finally, conclusions about the main implications of our study will be presented.

## **II. The status of compliance programs in Argentina**

In order to address this issue and to have an accurate first insight of the current situation in Argentina, a quantitative survey was conducted in the 300 largest companies by revenue in the country between November 2009 and February 2010, by way of both phone and online interviews with managers in charge of defining and implementing good practices programs, including CEOs, CFOs, Compliance Officers, and legal affairs managers. Out of the 300 companies included in the survey, more than a third of them, 104 companies, answered the questionnaire, providing results that are representative of the universe under consideration.

The business sectors covered include industry and services (71%), technology and communications (15%) and finance (14%). Concerning the ownership structure, 68% of the surveyed companies are privately-owned and the rest split between public companies listed on one (18%) or more stock exchanges (14%), whereas in relation to the type of the surveyed company, 61% are a subsidiary of a multinational headquartered outside Argentina and the rest are divided into independent local companies (38%) and subsidiaries of local companies (2%).

In deciding how to approach the subject, consensus was established on the necessity to study the current situation of business ethics in companies by focusing on both the nature of the implemented business ethics programs and elements as well as the general and specific

ideas that the interviewees had about these same programs, including roads for future improvements.

A first general statement was that Compliance is very important or important for competing both in the company (81%) and in the industry (73%). Greater relevance is then attributed by companies to its internal programs and in a lesser way -though still important- to the role played by these very programs in their business environment.

Concerning the nature of formalized compliance programs as well as specific individual compliance instruments such as codes of conduct, compliance officers' functions, training, audits, and hotlines for help and whistleblowers information, the first significant result was to observe that less than half (48%) of the surveyed companies have a formalized, comprehensive compliance program in place. This situation changes when attention is paid in a differentiated way to compliance programs' specific elements.

The different surveyed components were chosen following the list considered to be the standard one in assessing compliance programs and that has been elaborated by different regulatory organizations, the most important ones being those crafted by the U.S. Federal Sentencing Guidelines for Organizations and the Sentencing Commission.<sup>2</sup>

The most ubiquitous element is the code of conduct which exists in 74 % of companies in Argentina. The code of conduct understood as a formal document containing a set of principles and prescriptions developed by the company to guide present and future behavior on multiple issues of managers, employees and external stakeholders is regarded as the foundation or the stepping stone in creating an ethical program and culture. This result is congruent with a former comparative study undertaken in 2006 about the status of code of conduct implementation in three countries, including Argentina, where the number of companies having one totaled 70% at the time.<sup>3</sup>

Training sessions, generally considered to be communication/information activities specially devised to address and clarify ethical expectations and to enhance the skills and commitment of managers and employees, were also a very extended element, being a routine practice in 65% of companies. These sessions include face-to-face (29%) and online/internet sessions (22%) as well as others involving both items

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<sup>2</sup> Desio, 2008.

<sup>3</sup> Melé, D. et al. 2006: 26.

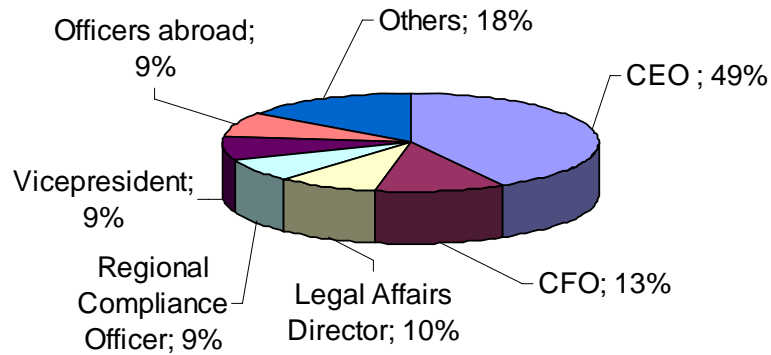
simultaneously (49%). Commonly regarded as costly tools due to the time and resources required to put them in place, including the need for qualified instructors, the introduction of new communication technologies and media allowed reducing costs by implementing internet-based online training systems.

The third most prevalent tool was specific/tailored audits encompassing internal monitoring systems designed to assess the programs' ethical performance and effectiveness: they are used in 61% of local business organizations. The fourth and fifth places were occupied respectively by hotlines for whistleblowers and hotlines for help information (49%). Telephone and online systems designed to help managers and employees report unethical conducts were present in 56% of companies, whereas those designed to the discussion and clarification of ethical dilemmas and to receive guidance exist in 49% of companies.

On the other hand, the existence of the compliance officer, understood as the role in charge of developing, coordinating and following up ethics policies as well as providing ethics training and investigating allegations of unethical conduct, is still minor, present in only 38% of the surveyed companies. Out of the existing 38% of companies with a compliance officer (39 officers out of the 104 companies that provided an answer), 62% of them have in place a full-time officer and 38% a part-time one.

On a positive note, there is an increasing weight attributed to the decisions of the compliance officer: almost half of them report directly to the CEO (49%), while the rest mostly reports to the CFO (13%) and Legal Affairs director (10%). In the same vein, when evaluating the impact of the Compliance Officer in the organization, 90% of the interviewees considered it to be whether of high or some impact. Concerning the relevance of the cooperation between compliance officers from different companies and sectors, percentages were lower but still positively significant: 36% and 44% of interviewees considered it to be respectively very relevant and of some relevance as a factor the success of extending a more solid compliance culture, while only a 20% attributed to it little or no relevance at all.

### I. To Whom Reports the Compliance Officer

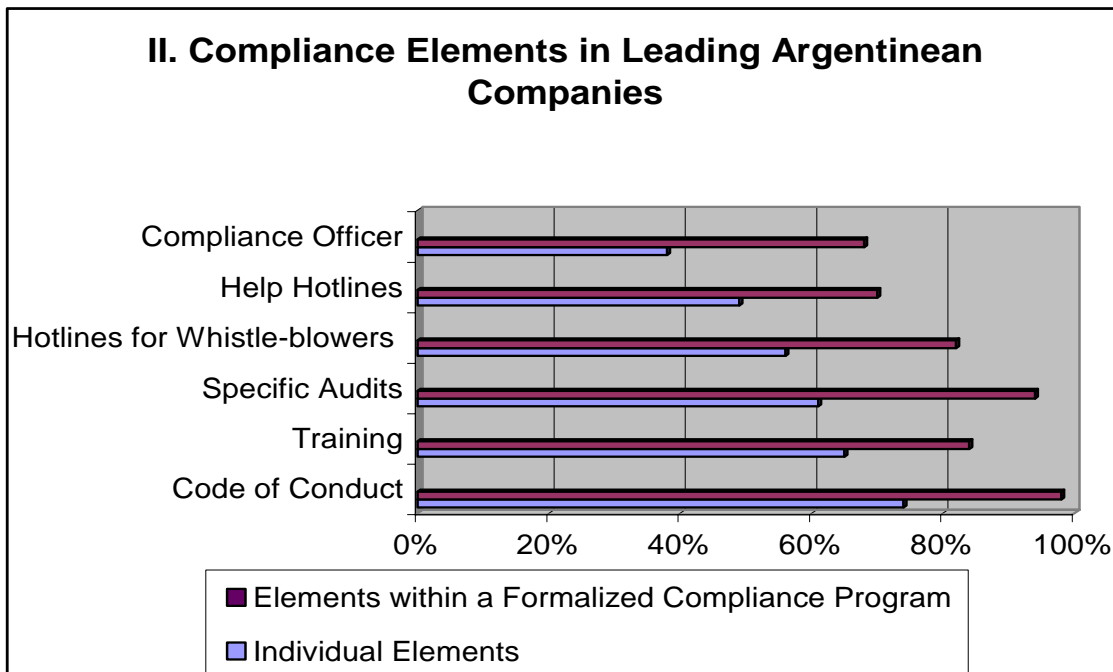


**Table 1. To whom reports the Compliance Officer**

In defining the three main activities these 39 Compliance Officers are responsible for in their companies, there was consensus in stressing the importance of the following tasks: compliance with internal and external norms (24%), audits/internal control (22%), and code of conduct compliance (21%), whereas items such as the fostering of comprehensive compliance program execution (10%), compliance-related initiatives (9%) and review of norms and guidelines (8%) were regarded as of lesser relevance.

Out of the 104 surveyed companies, the distribution of compliance elements goes in the following way: 49% of them have in place 5 to 7 elements; 17%, 3 to 4 elements; and the remaining 34% have between 0 and 2 items. The unevenness in the distribution explains itself by the extended presence of the code of conduct item, which accounts for most of the 34% part of the last group.

At the same time, the presence of the former six elements considered individually decisively increases in the context of the group having in place an overall compliance program, that is, 48% of the surveyed companies: within this group, codes of conduct and specific audits are in place in almost 100% of the cases, while items such as hotlines for help and whistleblowers, training and role of compliance officers double their presence.



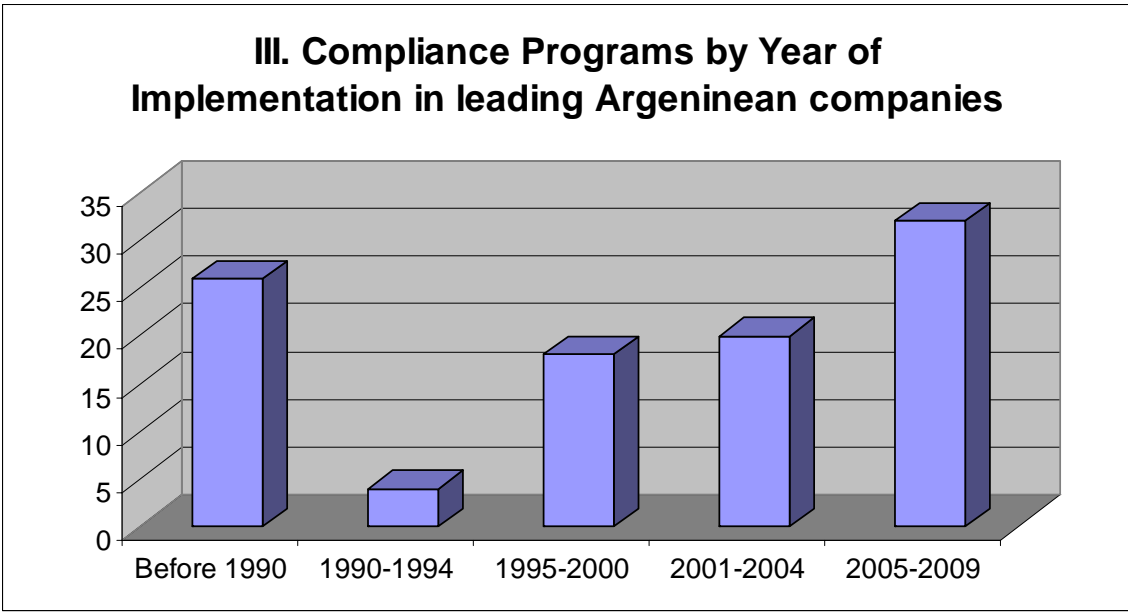
**Table 2. Compliance elements in leading Argentinean companies**

Beyond the implemented elements, it was also important to examine the most important aspects practitioners considered covered in their compliance programs: transparent business practices comes in a first place with 24% of answers, followed by finance/accounting transparency (18%), conflict of interests (18%), health-, security-, and environment-related policies (16%) as well as third party relationships (16%). Aspects such as compliance with external norms/laws, fraud policy/illegal payments, and information confidentiality and privacy while important are considered as less central in defining the overall structure of compliance programs. In opposition then to the actual duties and tasks said to be executed by compliance officers and other managers in charge of ethics programs that tend to orient themselves to a legalistic approach, when giving account of the aspects or dimensions considered in the overall compliance programs a more value-driven, integrity-based approach seems to prevail. In the same vein, a growing relevance is also attributed to the incorporation of compliance into risk assessments processes: in 76% of surveyed companies unethical behaviors fall within the scope of their risk management programs.<sup>4</sup>

<sup>4</sup> OECD, 2004.

When asked to identify possible ways to improve existing compliance practices, the respondents directed their attention to four main aspects: further training for company’s employees (78 mentions), code of conduct extension to third parties (58), a need for tighter regulations (35), and a more powerful compliance officer (32). Integrity pacts are also present in this list though they are actually the lesser known and extended instruments of all with only 18% of respondents aware of their existence.

On the other hand, the introduction of compliance programs has experienced an increasing acceleration in the last years: more than half of the existing programs (52%) have been put into place in the last 8 years with 32% of them having been implemented in the last four years only (between 2005 and 2009), by far the largest increase in the last 20 years. Even though the current situation about the existence and implementation of compliance programs and their elements in the largest companies in Argentina can barely be regarded as good enough, the accelerated pace of their implementation shows a positive and in principle irreversible trend towards a progressive formalization of the former through the step-by-step introduction of specific tools.



**Table 3. Compliance programs by year of implementation in leading Argentinean companies**

### **III. Compliance as a competitive advantage**

The survey results show first and foremost that companies are becoming aware of the importance of compliance programs not only as an intrinsic “good thing” to do in order to foster internal transparent practices, but also as a competitive advantage that would set them apart from other companies of lesser-quality transparency standards. This is shown by the high levels of importance attributed to compliance for business competition, albeit the traditional legalistic approach that many of those programs still adopt.

In that respect, reputation created through the continuous abidance to good business practices is crucial for them: it is ever more difficult for companies to differentiate products and services and traditional competitive advantages are progressively losing appeal in global business and, in this context, reputation as a human behavior-based competitive advantage becomes extremely important. Reputation creates trust and trust, in turn, reduces the perception of risk in uncertainty-bound environments. The better the company’s reputation is, the lesser the perceived risk and the greater the predisposition to trust it – both internally and externally as several studies suggest.<sup>5</sup>

Reputation acquired then through compliance with integrity-based programs dealing with the respect for the environment, labor rights, finance transparency, among other aspects, help companies in both ways: in having an advantage over competitors who disregard these programs (or, in any case, apply them only superficially), attracting in this way the attention of consumers and other stakeholders who regard those practices as giving the formers products added-value. This “reputation” advantage also helps recruiting new, sophisticated talent who are increasingly paying attention not only to the company’s usual hard facts/numbers such as revenues, profit margins, and compensation schemes, but also to the prestige attached to working in such a place.<sup>6</sup>

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<sup>5</sup> Sims, 2009.

<sup>6</sup> Egon Zehnder, 2009.

#### **IV. The relevance of the compliance officer**

The place occupied by the role of the compliance officer is generally regarded as a key indicator attesting to both the extension and depth of the organization's commitment to a business ethics program. The survey shows both a low number of acting compliance officers (only in 38% of companies) and that out of the existing ones a 38% have a part-time status. The increasing direct reporting from the compliance officer to the CEO or the CFO shows in contrast that there is an increasing importance attributed to their functions.

While in principle the direct relationship that exists between the Compliance Officer and top senior management seems to indicate the increasing relevance of the latter's work for the strategic ethical leadership of the company, this has not to be taken as completely positive if viewed in isolation from the implementation of other elements. It could perfectly be the case that, on the contrary, a closer relationship would act as a barrier for the accountability of comprehensive compliance problems, avoiding the sharing of problematic situations with other senior management and business divisions and leading to a discretionary, opaque and informal expedient way of dealing with problematic situations. This in time would jeopardize both the transparency of compliance programs within the company as well as the legitimacy of the role of the compliance officer which in the end is always to be judged on how proactively she seeks to check the progress of programs.

Also a legalistic approach seems to be prevalent here about the actual duties of a compliance officer pointing out to the persistence of a traditional notion of compliance that remains bounded within the strict limits of the legalist approach and still is far away from construing compliance through proactive integrity-based strategies that include both formal and informal elements.

#### **IV. Multinationals and their influence on compliance expansion**

The survey's results also show that specific factors have been playing a key role in influencing the latest developments and trends in business ethics programs in place in Argentina: first and foremost, the influence exerted by multinational companies' programs

with regional subsidiaries. Not only they unfold global compliance strategies in an homogeneous way later spreading into local business practices, but they also force their business environments to imitate their strategies out of the latter's concern of not playing with the same standards and being in consequence left out of the game.

By showing higher levels of formalization in their compliance programs and diversity of implemented instruments, multinationals' local subsidiaries help to promote and disseminate key business ethics' practices (Though in the past and in many cases in the present subsidiaries have applied different standards than the ones applied at their headquarters, their local influence seem to be effecting considerable changes nowadays). Other companies in the same sectors or third-party partners belonging to their value chains are faced with the necessity to change and adapt to the new practices implemented by multinationals globally. In particular, one can presume that these changes progressively spread downward mainly affecting the practices of locally-owned companies, generally medium- and small-sized ones; this effect has as a probable consequence the gradual dissemination and putting into practice of specific compliance elements.

It would be interesting to examine in future studies to what extent the influence exerted by multinationals varies in intensity according to the origin of the company: whether U.S.-based multinationals are (or aren't) more prone to be agents of change in the local business community than their European counterparts or even Latin American multinationals. Previous studies have shown that U.S. multinationals are the most proactive ones when it comes to implementing compliance programs but recent changes and the pace of acceleration of these programs globally may have changed this situation in significant ways.<sup>7</sup>

Another key factor in implementing comprehensive compliance programs is for companies to be public, that is, listed on a stock exchange: due to the strict norms emanating from regulatory organizations like the SEC, almost all of them have comprehensive business ethics programs in place, regardless of whether they are multinationals' subsidiaries or local ones. Though limited in number, especially when compared to other Latin American-based multinationals, Argentinean companies listed in

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<sup>7</sup> Rodríguez-Domínguez, L. 2009:198.

stock exchanges in New York are quick to adopt the latest trends in compliance and to adjust to the tough regulatory environment.

From the general positive trend that has been observed concerning the ever increasing appeal of compliance programs led by the impulse of multinationals, the specific “one by one” introduction of elements, frequently done in an informal and discretionary manner, should not be regarded as delaying the former process. Individual elements such as codes of conduct crafted on the particular history and leadership experience of a local company can provide a useful basic stepping stone which to establish a solid ethical organizational culture regardless of the presence of additional tools or an overall formal program. In the context of Argentina where there still exists a significant presence of large- and mid-sized prominent privately-owned companies controlled by families as major shareholders, the company’s ethical culture can be maintained over time through the example emanating from senior management.<sup>8</sup> In the context of local companies' ethical cultures, the “tone from the top” strategy is a vital component. Ideally, these achievements acquired over a long period of time and adapted to the specific history of the company would be updated and upgraded if aligned with a more methodical and systematic approach to compliance, in particular when local companies are forced to increasingly interact with a globalized business environment.

In turn both multinationals' subsidiaries and HQ could eventually also gain great insight if they are open to complement their formalized programs with the example of successful local experiences of ethical organizational cultures. If multinationals' efforts are leading the way in spreading the latest innovations for more effective transparent practices, in so doing they also need to delve into the specific, local-tailored successful tools implemented by local companies with a more sophisticated understanding of the local culture, both of business and that of society at large. In making use of local-savvy *know how*, they will contextualize and make more effective their sometimes more abstract programs.

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<sup>8</sup> Treviño et al, 1999:141.

## **V. Changes in compliance culture and the problem of instrumentalism**

Many aspects of the survey results show a slowly changing situation from old to new compliance paradigms, sometimes elements of both of them existing together simultaneously: The orthodox legalistic compliance framework with a focus on conformity with external norms, the punishment of illegal conducts, and legal/normative-driven strategies taken by individuals assumed to be guided by self-interest, seems to be giving way to more complex ones where there is a proactive value-driven, integrity-based strategy where individuals are construed as social beings guided not only by selfish interests but also by values and ideals they find in themselves, in their peers and most decisively in their organization's ethical culture.<sup>9</sup> In particular, two aspects deserve attention: the still predominantly legalistic approach to the duties of the compliance officer -which has already been discussed above- as well as the low awareness concerning integrity pacts (only 18% of surveyed companies know about them).

Integrity pacts by definition imply a public commitment made by a group of companies to make their ethical programs accountable, transparent and available to their business and more general social communities. In consequence, it is feasible to assume that there is a defensive, opaque strategy followed by companies in ignoring or dismissing integrity pacts out of fear of not reaching certain agreed goals that would eventually keep companies out from entering into this kind of programs or to be disqualified from them once they have not met the required objectives. Yet it can also be that they are not well-informed about the advantages of introducing this sort of programs that can have completely opposite results. More transparency (even in the context of not being able to meet some ethical "targets") is not an inherently risky choice, but on the contrary can lead to an increase in the company's reputation both externally and internally. Externally because both their stakeholders and competitors will be measured up against the company's own transparent ethical standards; internally because it will send a clear message to their members as to the readiness and

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<sup>9</sup> Paine, 1994; Rosanas et al., 2005.

encouragement the company puts in communicating and implementing its compliance programs.<sup>10</sup>

It is always fair to ponder on the current alignment that exists between what is said and what is done, between the mere enunciation of principles and the actual effective implementation of transparent practices. In other words, it would not be advisable to infer an automatic progress from the increasing introduction of elements but it must better be addressed the real impact that all these tools have in practice on a daily basis and to what extent the latter contribute to put into place an adequate organizational ethics. More formalization in compliance programs, often done in a mechanic and automatic way, does not guarantee – and even less equals to- better practices but, on the contrary, can often amount to opposite results to those initially sought by contributing to creating the sensation that the business firm only tries to comply with a series of bureaucratic “box-tickings”, devoid of actual impact.

This is the long-standing problem of instrumentalism, that is, the adoption of means with the sole purpose of preserving a respectable public image and avoid public criticism.<sup>11</sup> In particular, elements such as code of conducts and ethics hotlines are suitable for this kind of manipulation because they are both easy to “produce” for “window dressing”, to illustrate in a direct way the supposed commitment of the company with business ethics programs, which paradoxically can lead the less transparent companies to pursue the introduction of the largest possible number of such instruments. In any case, future studies in Argentina will have to address three key aspects in order to know with precision to what extent the presence of these tools are independent of any instrumental underlying motives<sup>12</sup>:

- *Content/quality*: the principles, tasks, norms, etc. stated in and executed through the instruments and their respective quality (e.g., what is being stated in codes of conducts, which are the specific exercises and tasks upon which training sessions are developed, which kind of information is included and in which way is analyzed and examined in whistleblowers hotlines, etc.);

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<sup>10</sup> Melé et al, 2006:33.

<sup>11</sup> Rodríguez-Domínguez, L, 2009:188.

<sup>12</sup> Kaptein, 2009

- *sequence of implementation*: the chronological order in which each of the elements was introduced (e.g., whether the code of conduct anteceded all others instruments, how the introduction of the first elements influenced the shaping of the later ones, etc.);

- *output and transformation*: what effect the introduced compliance elements have on the behavior of the members of the organization, considering both ethical programs and the ethical culture of the company not as monolithic units but each of them having multiple elements/dimensions to be contrasted to one another (e.g., how much practices have changed due to principles stated in the code of conduct, how information about transparent practices becomes a routine habit due to the initiatives pursued by the compliance officer, how whistleblower hotlines help create a culture of transparent communication, etc.).

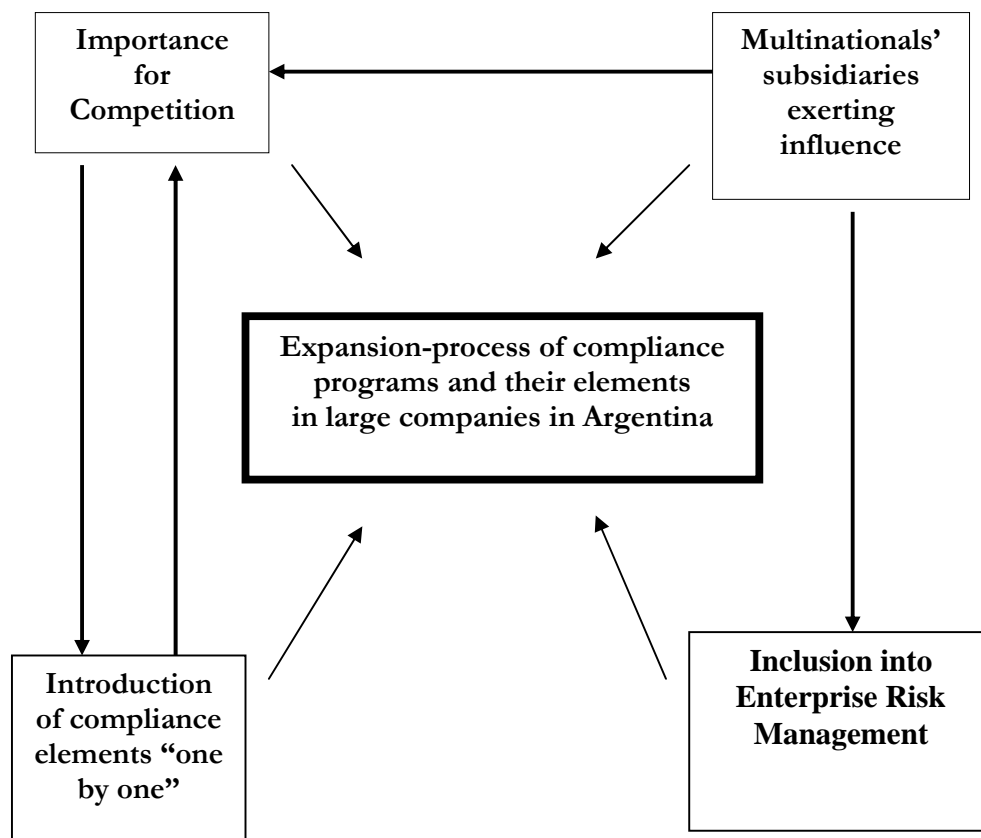
### **A framework for compliance expansion in Argentina**

The survey results allow to deduct that four factors are accelerating the expansion-process of compliance programs and their elements in large Argentinean companies:

- ***Competitive advantage***: companies regard compliance as a valuable tool not only to abide by internal and external norms but also as an added value that make them more competitive in the industry by creating and sustaining a solid reputation. Studies such as those of Sims (2009), Turban and Cable (2003) and Egon Zehnder (2009) support the fact that compliance and adherence to strong values can become both a wealth generator as well as a magnet for talent.
  
- ***Subsidiaries of foreign Multinationals***: the influence exerted by compliance programs implemented locally by multinationals' subsidiaries either directly by homologation requirements or indirectly by their "imitation" by local companies. Previous studies such as those of Melé et al (2006) Rodríguez-Domínguez et al (2009) stress the local impact multinationals have in introducing programs adjusted

to strict regulatory frameworks in their countries of origin as well as the receptive role local companies play in interacting with the former.

- ***Introduction of compliance elements “one by one”***: companies prefer the punctual implementation of compliance elements as more change management is required and uncertainty about the consequences in the complex Argentinean environment is higher in line with previous research such as those of Kaptein (2009) and Rodríguez-Domínguez (2009) that show how elements such as code of conducts or hotlines are an easy, “cheap” way to introduce effective means to start implementing a program without committing to a comprehensive formal one.
  
- ***Risk management***: ethical breaches increasingly fall within the scope of risk assessment processes in companies, forcing the implementation of formalized compliance programs. Studies such as that of Bagley (2006) and reports such as the one elaborated by the OECD (2004) account for the increasing importance attributed to compliance risk proper, that is, the role compliance factors play in delineating overall risks assessments.



**Table 4. Factors driving compliance expansion in Argentina**

The interdependent presence of these four factors combined amount to a synergic effect fostering compliance programs expansion in Argentina and awareness for them. The starting point for the interdependency is the exerting influence of foreign multinationals' subsidiaries leading to a trickle down effect fostering on one hand the awareness of the inherent risks and therefore the convenience to include compliance in the enterprise risk management. On the other hand, the same effect influences the perception of compliance as important to competition, which by itself brings up the question of implementation which ends up in an "element by element" approach. This implementation approach influences backwards the perceived importance for competition. Thus the importance compliance programs have for competing in the industry and the inclusion of compliance issues into enterprise risk assessments can be regarded as important aspects of multinationals' subsidiaries programs as the latter step in to set up standards of acceptable practices. And,

in the same vein, the specific introduction of individual elements on a “one by one” basis can be regarded as linked to the ever increasing competitive pressures as well as the influence exerted by multinationals because the former are regarded as a practical way to start making progress in an increasing formalized local context. Further studies will have to delve into the intricacies linking these four factors one to another.

## **Conclusion**

The survey’s results show that there an increasing awareness of the importance of compliance programs implementation in leading business companies in Argentina and a concomitant expansion of the latter driven by four main factors: importance for competition, multinationals’ subsidiaries influence, compliance regarded as a risk and the “one by one” introduction of compliance elements.

Though there still is the strong presence of a traditional and legalistic approach to compliance, as attested in the predominance of a concern for subject areas as those of internal control and compliance with legal norms, a diverse stance on the topic is slowly incorporating into the local business ethics culture.

Finally, greater insight would be obtained if a systematic comparative dual quantitative/qualitative study is undertaken including along with Argentina, other central countries in South America such as Brazil, Chile, Colombia and Peru in order to assess current trends by way of analyzing how ethics programs impact regional business practices and adapt and are adapted to the different local cultures.

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