A SURVEY OF MANAGEMENT CODES OF ETHICS
IN THE METAL PRODUCTS INDUSTRY

DISSERTATION
Presented in Partial Fulfillment of the Requirements
for the Degree Doctor of Philosophy in the
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University

By
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CHAPTER I

THE NATURE AND SCOPE OF THE STUDY

Statement of the Problem

During the past half century interest has been awakened and progressively heightened in the formulation of ethical codes and other statements of policy both at trade association and company levels. As will be shown presently, such organizations as Rotary International and the Chamber of Commerce of the United States have played significant roles in this program. As a result, many trade associations and their member companies have adopted formalized codes, or have cooperated in the formulation and adoption of Trade Practice Rules promulgated by the Federal Trade Commission.

From an examination of the literature referring to business ethics during this period, it appears that practically all studies thus far have been from either a philosophical or historical point of view. The investigation of business codes conducted by Edgar L. Heermance was primarily of this character. It did not constitute a critical analysis

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of industry and company codes to determine their use, value, and effect in formulating business policy. Yet, if so much time and money is to be spent in code-making activities, it would seem most important to obtain some indication as to their effectiveness in order to make decisions as to further activities in this area. Thus, a study conducted at both the trade association and company levels was undertaken to make such information available to management.

**Objectives of the Study**

The ultimate objective of the study is to provide information which will facilitate the development of greater confidence in our country's system of private enterprise.

By way of introduction and to provide a background for the survey itself, a brief historical review is presented of: fundamental ethical concepts; the development of ethics in business; the expression of business ethics in formalized codes and other statements of policy; the role played by government in code-making; and the relationship between business ethics and contemporary public relations. It was felt that the comments received from representatives of trade associations and their member concerns would have more significance when viewed against the background of the evolutionary development of ethical concepts in business life.
To implement the attainment of the ultimate objective, it was sought to assemble factual information concerning the nature, force, value, and effectiveness of management codes or other policy statements that have been adopted by business organizations. Included in the information sought were

1. the extent to which industry codes are in use;
2. the extent to which company codes are in use;
3. emphasis shown in industry and company codes upon the different types of business relations;
4. the main factors which influenced the adoption of formalized codes;
5. reasons why trade associations and member companies without codes have not adopted them;
6. incidence of and descriptions of operation under recognized informal, unwritten codes;
7. actual use made of codes—particularly in the formulation of company policy;
8. the types of business relations in which industry and company codes have been found to be of most value;
9. existence of provisions for enforcement of industry and company codes;
10. existence of provisions for corrective action when code violations are discovered;
11. methods used in making industry and company codes known to interested parties; and
12. opinions of company officials concerning the value and effectiveness of formalized codes of ethics or other statements of policy in modern business.

On the basis of the information obtained, a further objective is to formulate policy recommendations. It is hoped that they will aid modern business executives in evaluating, using, and improving the effectiveness of codes of ethics or other policy statements in the development of sound business relations.

Methods and Procedures Used in Primary Research

In 1948 the Society for the Advancement of Management became interested in investigating the value and effectiveness of codes of ethics in business. A Management Code Committee was appointed in June, 1950, with Professor Ralph C. Davis of The Ohio State University as chairman. Under his direction a study at the trade association level was carried on by the Bureau of Business Research at his university.

The metal products industry was chosen for study since the committee felt it constituted a representative sample of American industry. The metal products industry, according to the Department of Commerce publication National Associations of the United States, has the largest number of trade associations of any American industry. A breakdown of the component parts of the metal products industry appears in Chapter V and Appendix A. Some 356 associations in this
group were surveyed. The returns were reviewed, and prepared for presentation by the writer when he was appointed project supervisor in February, 1954. Since that time surveys at the company level have been completed.

Prior to the survey of the memberships of selected trade associations in the metal products industry, a pilot study was conducted at the company level. Questionnaires were forwarded to forty-one corporations. From the letters and completed questionnaires returned, valuable suggestions were received which were useful in later phases of the study. While not an integral part of the study, the timeliness of the comments from members of top management of these corporations merited, it was felt, the reporting of the returns of the pilot study (see Chapter VI).

Of the trade associations cooperating in the initial phase of the study, the following were chosen for investigation at the company level:

1. The Gray Iron Founders Society, Inc. This association was chosen as the example of a group having a widely distributed, formalized code of ethics. Questionnaires were sent to 516 members. The returns are discussed in Chapter VII.

2. The Radio-Electronics-Television Manufacturers Association. Since 1939 the radio industry has operated under Federal Trade Commission Trade Practice Rules. Recently these rules were revised to
cover the electronic and television sections of the industry as well. Data received from 353 members surveyed are presented in Chapter VIII.

3. Aircraft Industries Association. Composed mainly of large, but relatively young firms, this association has neither a formalized code of its own, nor does it operate under Federal Trade Commission Trade Practice Rules. It was desired to determine whether the members of such an association, without benefit, of either type of code at the association level, would show greater or lesser activity in regard to company codes. Chapter IX deals with this association specifically, with comparative data discussed in Chapter X.

Questionnaires were sent to each member of these trade associations accompanied by a request for a copy of its ethical code or other statement of policy, if any. The questionnaire was designed to obtain the information set forth in the objectives. Copies of the questionnaires and other correspondence used in the survey are included in the Appendixes.

From a study of the questionnaire data and codes which were received, it was sought to determine whether any significant differences existed so far as the age, size (as measured by number of employees), or type of business organization were concerned. Comparative analyses were made of company and industry codes. Analyses were also made of the
possession of enforcement machinery, of the provision for corrective action in case of violation of code provision, and of other items of information sought through the questionnaire.

From the information obtained in the various phases of the study, sixty tables have been prepared to summarize the findings and to facilitate comparison. From the beginning, there was no intent that this survey should constitute a statistical study. It was expected that the subjective nature of many of the returns would not lend itself to precise statistical measurement. Also, it was recognized that the scope of the study was limited. However, as stated above in the discussion of objectives, it was hoped that information could be gathered which would aid management in its future policy formulation.

**Definition of Terms**

In the early phases of its work, the SAM Management Code Committee adopted definitions of basic terms involved in the subject matter of the survey. Succeeding phases of the study were carried out with these definitions in mind:

*A code of business ethics* is a statement of ethical principles and rules of conduct for the accomplishment of business objectives with due regard for the rights of others.

It is a guide for the thought and action of all personnel, whether citizens, owners, executives or operatives,
in questions of right and wrong that are involved in the conduct of business operations. A code of business ethics is or should be an important factor in the formulation of business policy. The adoption and general application of such a code should strengthen the confidence of the general public in the integrity of executive leadership.

For the purposes of the survey, the term "code of ethics" was considered to include: formalized codes of ethics; trade practice rules adopted under FTC auspices; or any general statement of policy dealing with ethical considerations in the different areas of business relations.

A principle is a statement that is accepted as true which sets up a cogent relationship between objectives on the one hand and certain factors, forces and effects in a problem situation on the other.

A business policy is a statement of principles and rules of action that is intended to serve as a guide for the thought and action of the business organization in the accomplishment of its objectives.

A policy statement is a specification of those principles and associated rules that guide the thought and action of an organization in the accomplishment of certain designated objectives.

The purposes of a policy statement of an ethical nature is guidance in the development of a mutuality of confidence between groups that must cooperate in the
accomplishment of the particular objectives. These groups may be a part of or outside of the particular organization.

The SAM Management Code Committee considered the following to be the principal classes of business relations in which mutual confidence is a requisite for an effective satisfaction of mutual interests:

**Customer relations** are those having to do with supplying the needs and desires of the ultimate consumer for goods or services.

**Dealer relations** are those that have to do with the interests and activities of middle-men, whether wholesalers or retailers, in supplying the ultimate user with goods and services.

**Competitor relations** are those involving the interests and activities of competing companies within an industry.

**Supplier relations** are those involving the interests and activities of the company's vendors in connection with the procurement of materials, supplies, equipment and facilities.

**Employee (Labor) relations** are those involving interests and activities of the company's employees, in connection with the purchase of personal services and the performance of assigned duties.

**Financial relations** are those involving the interests and activities of the company's suppliers of capital, other than owners.
Owner relations are those involving the interests and activities of owners in the conduct of the business, whether they are stockholders, partners or individual proprietors.

Community relations are those involving the interests of the community in which the company is domiciled, insofar as they are affected by the company's activities.

The corporate entity has the usual moral obligations of the citizen to contribute reasonably to the welfare of its community.

Public relations are those involving the interests of the general public as they are affected by the activities of the company or the industry.

The public interest includes, among other things, the need and desire of all citizens for a continuous supply of more goods of better quality that are readily available when and where they are wanted, at lower prices, together with such services as may readily be expected. It has an interest, in other words, in a continuous contribution by private enterprise to a steadily increasing standard of living. This interest is paramount. It must be satisfied within the framework and requirements of a free company.

Governmental relations are those involving the interests and activities of the various governmental units—national, state, and local—with regard to the conduct of the company's business.
Limitations of the Study

It is recognized that use of the trade associations in the metal products industry and the selected association memberships therein (GIF, RETMA, and AIA) may not yield results which are typical of all industry groups. Considerable care, then, must be taken in extending the conclusions reached from the analysis of the survey data to other industries and to business in general. However, it will provide information which has not been available, heretofore, so far as this particular industry is concerned. It is hoped that this study will stimulate others to conduct similar investigations in other industries.

Previously, it was pointed out that this survey was neither expected nor intended to constitute a statistical study in the ordinary sense. Neither the scope of the investigation nor the character of the data sought would lend itself to the usual statistical measurements. Therefore, during the discussion of the returns received from the various cooperating associations and member companies, when the term "significant" is applied to a particular result, it is not to be interpreted as having a statistical connotation. It is believed that when the results are discussed from a more subjective viewpoint, they will be more helpful to management.
In the survey at both the association and company levels, a great reluctance to give full information—or to reply at all—was noted. There was a marked hesitancy on the part of company representatives to discuss the ethics of their own organization. In the letters which accompanied the questionnaires the anonymity of the respondents was assured. However, to a certain extent, the information supplied by association and company representatives may reflect a desire to enhance good public relations rather than being entirely objective. There is no sure way of measuring this. On the other hand, the frankness in criticizing ethical codes, evidenced by many of those surveyed, would seem to indicate a considerable degree of veracity.
CHAPTER II

HISTORICAL BACKGROUND

Fundamental Ethical Concepts

Introduction

Since this study is basically an empirical analysis of the use of ethical codes or other statements of policy in the metal products industry, an extensive investigation of the broad field of moral philosophy would be beyond its scope. However, to provide a background for the contemporary material, it seemed appropriate to give brief attention to fundamental ethical concepts. There will be no attempt to present a complete history of ethical thought. Just a skeleton outline of the development of ethical systems down through the centuries will be provided. Some, but not all, of the major contributors to ethical thought in each period will be named, along with examples of their works. It is hoped that this brief historical review will provide a background for the material to follow, for these various systems of ethical thought have all had their influence upon the modern concepts of business ethics which are treated in this study.
Ethics Defined

In its historical development, ethics has been variously considered to be a branch of philosophy, a science, or an art. As a branch of philosophy, ethics has been concerned with the investigation of the nature and reality of certain conceptions in connection with fundamental theories of the universe. It is the theory of reality in its moral aspect. Ethics as a science is concerned with studying the facts of experience in which judgments of right and wrong are involved. The discovery and formulation of rules of action to guide men in the attainment of their ends characterizes ethics as an art.

In the various definitions of ethics its relationship to human conduct is frequently noted. For example, ethics has been defined as "the science by which we endeavor to discover principles governing human conduct when appraised as either right or wrong,"1 or "the field of moral obligation."2 The concept of rightness, being worthy of respect and confidence, has come down through the ages to become one of the indispensable ingredients of professionalism. Of course, exactly what constitutes "right" or "wrong" conduct

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in a given situation is a subjective matter tied to the cultural and social pattern of time and place, with due consideration of prevailing circumstances and conditions. It has also been said that "ethics deals with the ultimate ends of human conduct." In this sense, ethics assumes that there is a real distinction between good and bad ends, and seeks for a principle that will determine the true worth of the ends of conduct.

Classification of Systems of Ethical Thought

The ethical beliefs of Western Civilization have, for the most part, been shaped by two major branches, one Greek and the other Hebrew-Christian. The rationalistic ethics of classical Greece emerged from the traditionalism and nationalism in the age of the great dramatic poets of the fifth century B.C. It reached its culmination in the philosophy of Socrates and his successors. The Hebrew-Christian religious ethics emerged from the traditionalism and nationalism of the eighth and seventh centuries B.C. and culminated in the teachings of Jesus of Nazareth. Here it was believed that human morality is rooted in the basic relations of man with God.

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There are other ways in which ethical theories may be classified. Most broadly, they are regarded as teleological or formalistic. Under the former, an act is judged by appraising its consequences. Formalism, however, tests the moral value of an act by considering the motive involved, holding that the results of an action are often beyond control. Another classification would characterize ethical systems as being either idealistic or realistic. An ethical system which asserts that the perfect is attainable may be called idealistic. One which maintains that only a relative good is attainable may be termed realistic.

In the paragraphs to follow, a brief review of the major systems of ethical thought will be presented for each of the four epochs in ethical history. The first, the Graeco-Roman, extended from about the sixth century B.C., to the fifth century A.D. Following this early period was the Patristic-Mediaeval, extending from the fifth to the fifteenth centuries A.D. Covering the period of the Reformation to the French Revolution, was the Early-Modern era. From the time of the French Revolution, ethical systems have been termed Recent-Modern.

Graeco-Roman Epoch

In the fifth century B.C. a group of teachers of philosophy, known as the Sophists, arose in Greece. They may be regarded as the pioneers in ethical science, since their predecessors had been concerned with impersonal
problems dealing with the constitution of the material universe, rather than with questions of human conduct. Protagoras represented the positive and constructive, while Gorgias represented the negative and critical side of Sophistic teaching.

The relation of knowledge to moral conduct was noted by early writers. The doctrines ascribed to Socrates, that virtue is knowledge and that it is one, are said to be partly criticisms of the moral scepticism of Gorgias, and partly an advance toward a constructive science of ethics. It is believed that the personal influence of Socrates was the stimulus which gave rise to the subsequent Greek ethical systems.

Plato was the follower of Socrates and the teacher of Aristotle. Plato first departed from the ethical views of Socrates in the Protagoras. It is interesting to note that Plato mistrusted the written word, holding that a truth put into writing is dead and its meaning more or less destroyed. Thus, he may not have been enthusiastic about the formalization of ethical beliefs. In his masterful thesis, Ethics, Aristotle recognized that ethics is not an exact science.

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like mathematics, since the results are only general and not always exact. Plato and Aristotle differed from most other Greek thinkers, including Socrates, in treating knowledge of reality as an end desirable for its own sake, an integral part of well-being, not merely an external means of acquiring it. To these two scholars we also owe the conception of a social good in which the good of each individual is only a part.

These Greek systems, which characterized the first period in ethical history, were destined to influence modern non-theological ethics greatly at a later time.

**Patristic-Mediaeval Epoch**

Patristic is the name applied to the writings of the earlier Fathers of the Christian Church to the end of the fifth century. Of these, the most famous was Augustine whose philosophy, although deeply influenced by Plato, was based upon Christian theology. This second period of ethical history was characterized by the intermingling of the Greek and Hebrew-Christian Ethics. The Greek way of life, as interpreted by Aristotle and St. Thomas Aquinas, came to constitute the ethics of the level of man's natural everyday affairs, while more distinctively Christian virtues were required at the level of his spiritual life. In this period there was a transfer of theoretical interest from the conception of the good, the central idea of ancient ethics, to
that of obligation. St. Thomas Aquinas, in his *Summa Theologiae*, gave a detailed account of particular duties. In commenting upon the influence of the Greek thinkers upon ethical thought in this second period, Alexander Gray maintains that

Aristotle is chiefly influential in moulding the views of the Middle Ages with regard to the nature and functions of money, the iniquity of usury, the principles which should govern exchange and the nature of justice. On much of these, indeed, St. Thomas merely repeats Aristotle, with an added buttress drawn from Christian sources.  

In this era Christianity conceived of morality as a code. An attempt was made to find an independent philosophical basis for the moral code. Partly due to reactions to medieval religions contributing to an enthusiastic study of the remains of the old pagan culture that spread from Italy over Europe in the fifteenth and sixteenth centuries, and partly due due to an indirect stimulus given by the Reformation, it was sought to develop a moral philosophy independent of either Catholic or Protestant assumptions. Such an ethical method, it was felt, might claim universal acceptance from all sects.

**Early-Modern Epoch**

Extending from the Reformation to the French Revolution was the third, or Early-Modern period of the history of ethics. On the continent, rationalism, which considered

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reason rather than emotion to be the governing force, seemed to dominate. The Dutch scholar, Hugo Grotius, was an early leader in this period. In his writings he drew upon Aristotle, Christian theology, and Roman law. The success of his treatise *De Jure Belli et Pacis* brought his view of Natural Rights into prominence. Immanuel Kant and later Georg Wilhelm Friedrich Hegel were the leading German philosophers of this period. The Continental ethics of the seventeenth and late into the eighteenth centuries had no influence on British moralists. English ethics was self contained during this period, and was predominantly empirical or psychological, whereas elsewhere in Europe ethics was metaphysical.

Thomas Hobbes was the founder of modern non-theological ethics. He was the chief exponent of legalistic traditionalism, that is, the seeking of a standard of moral judgment in a system of established law. He regarded morality as essentially obedience to the sovereign's rule. Laws of morality were derived from the natural instincts of self-preservation and self-assertion. This concept stemmed from naturalism, the view that it is possible to find the distinction between right and wrong in natural events. The English intuitional systems (holding conscience to be the primary moral force) were chiefly prompted by the desire to disprove the ethical doctrines of Hobbes.
The appearance of Shaftesbury's *Characteristics* in 1713 marked a turning point in the history of English ethical thought. He was the first moralist to take psychological experience as the basis of ethics. In his system public interest becomes the standard of right and wrong. John Locke, David Hume, Frances Hutcheson, and Adam Smith were other English contributors during the Early-Modern era.

**Recent-Modern Epoch**

The Recent-Modern period dates from the French Revolution (1789). In England, Jeremy Bentham and John Stuart Mill were well known writers of this period. Bentham, in his *Principles of Legislation*, 1789, defined ethics as the art of directing men's actions to the production of the greatest possible quantity of happiness. Before, he had held that ethics was a science. J. S. Mill maintained that an individual is naturally social and so instinctively judges his own welfare from the standpoint of society. In Germany, Kant was still writing in this period. The French philosopher Auguste Comte placed emphasis upon the sciences rather than philosophy.

From the latter half of the nineteenth century onwards ethical thought was influenced by the theories of Charles Darwin. His most famous works were the *Origin of Species* and the *Descent of Man*. Darwin tried to trace our moral reactions and customs to their most primitive human
beginnings, and, below the human level, to animal reactions. He also undertook an evaluation of human conduct by the survival value principle supplied by evolutionary biology. Herbert Spencer, Sir Leslie Stephen, and Friedrich Nietzsche were others who approached ethics from the standpoint of evolution. Critics of evolutionary ethics emphasized its neglect of the rational intelligence of human life as a differentiating factor. T. H. Green's principal objection to evolutionary moral philosophy was that no merely "natural" explanation of the facts of morality is conceivable.

The evolutionary systems, represented by Darwin, Spencer, and others, together with the metaphysical theories of morals, of which T. H. Green is an exponent, have dominated the field of ethical speculation since about 1870.

Ethics and Theology

In the eighteenth century economics was considered to be a branch of ethics, and ethics of theology. It was considered that "All economic problems were primarily ethical and therefore religious, since the true purpose of any creative economic theory and organization was the advancement of 'human material well-being.'" In fact, it has been pointed out that religious practices have played a doubly

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important key role in the shaping of economic institutions since "many other elements of the pattern of life, such as sex, child rearing, work habits, agricultural and industrial practices, are themselves profoundly affected by the prevailing religious beliefs." 10 Thus many of the motives which dominate our conduct are religious at their roots, even if not on the surface. While many religious writings had their origin in an environment far removed from modern times, they are usually considered to have provided us with ideals upon which, and incentives with which to construct a basis for business ethics.

In the questionnaire responses received from those cooperating in the Management Code Survey, direct or indirect references to basic religious concepts--such as the Golden Rule--were frequently made. It was also noted, in many cases, that the ethical status of a company was considered to depend upon the moral attributes of its management. Realization of this relationship was evident to Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, when he included "a well-knit set of ethical moral and spiritual values" 11 as a basic requirement of top leadership in a


democratic business organization. With the increasing awareness of business' social responsibility, it would seem likely that additional attention will be given to ethical concepts so far as the qualifications, training and development of future business leaders are concerned.

**Self-Interest and the Setting of Ethical Standards**

A contemporary legislator has characterized this relationship as follows:

> At the bottom of the ethical problem, for both the individual and society, is the conflict between the self-interest of the individual and the more or less collective interest of society as a whole; and the essential problem of conduct can be expressed in the question: To what extent should the purely selfish ends of the individual be sacrificed to or limited by the ends of the society he lives in?\(^{12}\)

This question suggests the controversy, during recent years, over the primacy of profit or service as the major objective of a business organization. More attention will be accorded this subject presently. While self-interest must be accepted as a powerful force in our daily lives, increasing attention is being given to our responsibilities to others. Growing awareness of this relationship has been an evolutionary rather than a revolutionary development. More than

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a quarter of a century ago, a well-known English writer in the field of management observed that

When industry comes to be actuated in its every­day affairs by a motive which transcends self-interest, the moral progress of our community may be said to have begun. The cost of building the Kingdom of Heaven will not be found in the profit and loss accounts of industry, but in the record of every man's conscientious service.  

While we may refer to the present-day corporate body as a legal "person," its ethics are invested in its leadership. For the moral progress of industry, then, we must recognize the close interrelationship between moral action and human relations. Only as the motives of the individual reflect the acceptance of a broader sense of social responsibility can we consider those of industry as making a significant contribution to moral progress.

The Development of Ethics in Business

As stated above, the ethical concepts which we find inculcated in our codes and other statements of policy today had their roots in theology. Based upon such beliefs there was a tendency for such tenets to resist change over the years. Of course, there was adaptation to long-run changes due to environmental, political and social pressures. However, such changes can better be characterized as evolutionary rather than revolutionary in scope. To illustrate

the nature of this development, it is considered appropriate at this point to briefly trace this movement chronologically. Discussion will be limited to moral progress as it evolved within the realm of commercial life.

**Evidences in Ancient Times**

It seems that the ethics of Phoenician merchants were questionable. Having no regular routes, thus not establishing permanent connections, the Phoenicians had a very poor reputation for honesty and fair dealing. Not unlike some nations of the present era, they were known to exploit the Hellenic tribesmen who were on a lower cultural level. Such practices are said to explain why the Homeric Greeks regarded the professional merchant with distrust and contempt.\(^1\) An insight into the characteristics of the fourth century Athenian businessman can be gleaned from the writings of the Attic orators. He is not pictured as sanctioning "sharp" practices. Rather, he served his clients honestly, avoided legal entanglements, and possessed some sense of social responsibility. "The great thing in the world of trade and finance, Demosthenes tells us, is to combine diligence with honesty."\(^1\)


During the Medieval era, characterized by the sub-ordination of ethics (as a branch of philosophy) to theology, much emphasis was placed upon obligation or duty. Significant differences existing between the merchant member and the "outsider" so far as these points are concerned have been pointed out as follows:

The formal competition among the privileged monopolists of the guilds was put on a high ethical plane. It was assumed that no member had his own profit or advantage in mind. He was concerned chiefly with the salvation of his soul and the good of the community. The outsiders who broke the guilds and created the modern economic structure, however, made no pretense of such disinterestedness. They frankly avowed selfish motives.\(^{16}\)

With the advent of the Renaissance and the Reformation, commerce became highly honorable since economic success came to indicate a certain amount of divine approval. At the same time, gaining of intellectual freedom of inquiry brought forth many new ethical problems.

**Dynamic and Progressive Character of American Business Morality**

Early colonial days in America often gave recognition to double ethical standards. One type of conduct was considered acceptable in business, while a quite different one held forth in an individual's personal life. Ethical judgments which accorded accumulation of private wealth

through commercial activities were not uniform during the eighteenth century. Such an American businessman as John Woolman, reflecting the teaching of such Quakers as William Penn, "looked not to the prosperity of his business but to the responsibilities of it."17 Calvinist Cotton Mather, representing a quite different and more powerful religious influence in American business history, believed, on the other hand, that "wealth was a sign of divine favor and its getting was a way of glorifying God."18 Such a view was accepted by Benjamin Franklin who practiced the business ethics of Cotton Mather.

Progress in business development during the colonial period was made in the absence of either voluntary self-regulation from within or governmental regulation. While the progress in commerce and trade no doubt would have been realized eventually, the absence of such regulatory aspects during the developmental stages can be considered responsible for its speed of accomplishment. Still remaining is the question as to whether the acceleration in progress condoned the ethical practices which prevailed. Nevertheless, in the lawless cities of the frontiers, it was often the businessmen who took the lead in bringing about order and confidence.


18 Ibid., p. 144.
An additional factor which contributed to the retardation of the development of ethical standards in business during the first half of the nineteenth century was the assimilation of the large number of immigrants arriving in America during this period.

Encouraged by the laissez-faire policy of the government, the new age of industry that opened after the Civil War was distinguished by lax morals. It soon became evident that ethical development in business was being exceeded by the economic. It was during this period that the so-called "robber barons" were in operation. While companies were founded by such honest and public-spirited men as Richard T. Crane (valves and fittings) during this period, such names as Drew, Gould, Fisk and Vanderbilt are usually remembered as typifying the practitioner of sharp practices of this era. Quite rightly, the means employed by these men and others like them may be questioned on ethical grounds. However, it is generally recognized that the progress in transportation and industry for which they were responsible would have been delayed for many years had it not been for the use of these same practices. As stated before, this does not eliminate the moral issue involved.

In the absence of self-regulatory measures by the concerns engaging in questionable ethical practices, it was inevitable that the public should seek to control such activity through legislation. First to be regulated in
this manner, the railroads came under the Interstate Commerce Act of 1887. Increasing apprehension over the growing power of business brought about the passage of the Sherman Act of 1890. It was hoped that by outlawing business combinations in restraint of trade, free competition could be maintained. While more indictments were brought under the Sherman act during Taft's administration, the trust-busting activities of President Theodore Roosevelt received more popular acclaim. It is said that Roosevelt's initial interest in the ethics of business arose out of an incident which occurred while he was with the "Rough Riders" in Cuba.19 When packages labeled "veal loaf" were found to contain corn meal instead, it was the moral rather than a dietary question which concerned him. As a result of the agitation which followed this incident, the original Pure Food and Drug Act was passed in 1906.

During William Howard Taft's administration, when enforcement of the Sherman Act was at a high, another development took place which was to play a significant role in the improvement of business ethics. In an attempt to obtain the cooperation of more businessmen in a program of self-regulation, the Associated Advertising Clubs of the World (now known as the Advertising Federation of America)

organized the first Better Business Bureau in 1911. Expanding rapidly, many local bureaus were initiated by local chambers of commerce. These local bureaus, together with the national bureau, have as their primary aims: "To further and promote honesty, truthfulness, and reliability in the sale of merchandise, securities, and services, discourage fraudulent and deceptive methods in business, and thereby to increase public confidence in advertising, salesmanship and business generally."\(^2\) Because of consumer education and the adoption of better business practices, the Better Business Bureaus now receive more inquiries than complaints, while the reverse was true during the early days.\(^1\) Their slogans, "Before You Invest—Investigate" and "Everybody Benefits From Truth in Advertising," have achieved a widespread influence in day-to-day business affairs. In 1912, shortly following the formation of the first Better Business Bureau, "The Rice Leaders of the World Association" was founded by Elwood E. Rice. This was an association of "reputable manufacturers for the fostering of high business principles and ideals in industry,"\(^2\) which included in its


qualifications for membership "a recognized reputation for fair and honorable business dealings" and "an honest product, of quality truthfully represented." Dr. Rice felt that the value of ethical methods in business was proved by long experience, and that the policies and reputations of corporations were dependent upon their guiding personalities.

Increasing attention was accorded the awakened interest in the moral aspects of business during the 1920's. It was part of the adjustment of businessmen to the changing scene. Now the emphasis was upon the maintenance of an advantageous cost-price relationship in addition to optimum quality and service rather than upon entry into an unexploited field. Public opinion supplied the impetus which accounted for the changing social standards. Industry was beginning to render obsolete the old legal maxim of *caveat emptor*, "let the buyer beware." With the rapid expansion of commerce, both in volume and in scope of operation, the importance of a higher standard of commercial honor came to be recognized. Perhaps a political appointment played a significant role in this development. It has been observed that

A new motivating force for establishing higher commercial standards in industry on the basis of fact has followed the appointment by President Harding of Herbert Hoover as Secretary of Commerce of the United States. Mr. Hoover has set for the Department of Commerce a high

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23 Ibid.
standard of service as a measure of its relation to industry, and in setting that standard of service has already made possible the coordination of many of the constructive purposes of the trade association and given new strength of purpose to the professional character of such associations.  

Mention is made here of the contribution to higher commercial standards made by the trade association. Presently, the part played by trade associations in the formulation and promulgation of ethical codes will be reviewed.

Discussion of ethical movements in business during the 1920's would not be complete without mention of the contributions made by such semi-fraternal limited membership luncheon clubs as Rotary, Lions, Kiwanis, Optimists, and Exchange Clubs. These organizations were responsible, in large part, for the introduction of formalized ethical codes into American industry. They sought to influence trade associations to adopt such codes for promulgation among their memberships. Rotary International, for example, provided such associations or individual businesses with a descriptive circular on codes as well as an outline of what an ideal code should cover. Such a model code was also provided by the United States Chamber of Commerce.

Despite the progress made in interesting trade associations and their memberships in the value of

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formalizing their ethical beliefs, the aftermath of the stock market crash of 1929 brought examples of unethical conduct on the part of business executives to the public's attention. Although such practices are sometimes considered to be a factor in the enactment of the National Industrial Recovery Act in June, 1933, the NIRA Codes (to be considered in more detail when the role played by the government in code making is discussed) placed emphasis upon economic rather than ethical concepts. While this legislation was ruled unconstitutional by the Supreme Court in 1935, other developments during the 1930's continued to encourage improvements in business morality. Passage of the Securities Exchange Act of 1935, continuance of efforts by the Federal Trade Commission toward the elimination of questionable ethical practices, and the formation, in 1936, of the National Consumer-Retail Council, Inc., all had an important role to play.

It would not be presumptuous, the writer believes, to conclude that significant advances were made during the two decades preceding World War II in business morality. However, this view was not held unanimously. In writing of the 1941 period, Philip Wylie expressed his belief that compliance only with the letter rather than the spirit of restrictions designed to encourage ethical conduct was being accomplished when he maintained that "any procedure that was technically legal, or could be made so to seem, became the businessman's definition of ethics and, thus, the public
definition of morality." In many cases this view may have been justified. It is not possible to ascertain to what extent this attitude provided the motivation for business conduct. While a certain segment of the public may have had its confidence in American business morality shaken during the great depression, the tremendous accomplishments of the World War II period in the production of needed goods and services restored, to some degree, confidence in American business enterprise.

Much of the public concern over business morality since the 1920's had been centered in the area of labor-management relations. In 1935, the passage of the National Labor Relations Act had sought to curb the unfair practices of employers. In the absence of similar restraints upon labor, which was rapidly expanding its scope of operation, it was not long before the public came to consider it advisable to establish similar standards of conduct for labor. This was accomplished with the enactment of the Labor-Management Relations Act of 1947. It will presently be shown how both management and labor have become increasingly aware of their social responsibilities in the various facets of business relations during the period following the passage of this legislation.

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Thus it has been seen that there has been a constant evolution in the field of business toward a fuller emphasis upon the "general welfare." Even as early as 1916 Professor Reed of the University of Idaho recognized that "one of the outstanding features of this evolution is the change from private and competitive morality to public and cooperative morality." With the changes in economic conditions came changes in human relations. More recently Clarence Francis, when Chairman of the Board of General Foods Corporation, declared that "with each passing generation in American life, there has been an increasing sense of responsibility among businessmen not only in the ethical and progressive conduct of their affairs but in the part they play in the life about them." In this development trade associations, service clubs, religious and educational institutions, governmental units, and the general public have all played important roles.

Stages of Ethical Development in Business

More or less clearly defined stages of development can be discerned from the evolution of business standards of

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conduct which have been traced briefly above. These stages have been delimited by Ralph C. Davis as follows:

1. The stage of unrestrained competition.
2. Gradual realization of the importance of constraining business activity in conformity with some criteria of right conduct.
3. The beginnings of group action through associations of business executives for the development of such criteria.
4. The development of public interest and group pressure.
5. The crystallization of business thinking and the development of a voluntary code for the industry.
6. Legislative action expressing the thinking of business and other groups concerning standards of proper business conduct.
7. The self-policing of the industry, in some instances, which may or may not be done under the leadership of an "impartial chairman."
8. The policing of the industry by a governmental regulatory body when and if the public still feels that its interests are not adequately protected.28

Further reference to certain of these stages will be made presently. While not nearly as complete, a rather interesting 3-stage classification was made some thirty years ago as follows:

1. Each for himself; so far as he can get away with it.
2. Minimum ethics; acting according to "the rules of the game" agreed upon, explicitly and implicitly.
3. Christian Ethics; a sample of which is the effort to satisfy real, deep and permanent desires, and not merely obvious desires, in others as well as in ourselves.29

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29 Cabot, op. cit., p. 89.
In both of these classifications the shift in emphasis from individual to public or social responsibility is evident.

**Nature of Ethical Conduct in Business**

Business conduct, that is, its actions or behavior, is coming more and more under the careful observation of the general public. In evaluating such conduct, it has been pointed out that "the purpose of business ethics is to help us determine what practices are right and what wrong." Of course these concepts are not fixed for all situations. In writing of the evolution of business ethics in 1926, Dean Lord of Boston University's College of Business Administration pointed out that "time, place and persons all condition the problem of right and wrong in conduct." Dean Lord went on to assert that "there are two criteria of conduct, the Inner and the Outer, based respectively upon the motive and the result of the action; both must be considered in evaluating conduct." This statement recognizes on the one hand, the responsibility of business leadership in setting worthwhile objectives for their ventures in business and, on the other, the widening effect of business decisions upon the community and the nation.

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30 Sharp and Fox, *op. cit.*, p. 3.


It is sometimes claimed that businessmen operate under multiple standards: the one which is applied in their treatment of others; one which they expect others to apply to them; and sometimes even a third, which is considered to apply to other people's treatment of each other. As business ethical standards have evolved through the years, such a multiple standard has attracted fewer and fewer devotees. Even in 1931, Commissioner W. E. Humphrey of the Federal Trade Commission stated that he believed that "business generally, and particularly 'big business,' is more and more coming to the conclusion that not only is honesty the best policy, but that it pays the highest dividends." Thirty years later Ralph J. Watkins, of the Research Division of Dun and Bradstreet, Inc., observed that, "shady dealings, though always threatening and always to be guarded against by prudent men, cannot long be hidden in the American economy." Sooner or later this type of activity is given publicity with adverse effects upon those responsible for its perpetration. In the meantime, however, the


unethical conduct being practiced by a particular concern may jeopardize the entire industry and business in general. In the absence of specific legislation, self-regulation then becomes a matter of self-preservation.

Responsibility for Ethical Business Conduct

Business is not a matter of machinery; it is not a great granite building; it is not iron steel and rock; it is the human force that is in it; it is the man.35

This statement by John Wanamaker quite accurately suggests the placing of the responsibility for business management upon executive leadership. In 1951, Harry C. Carr, Chairman of the First National Bank of Philadelphia, observed that in his some 45 years of business experience "the character of a company and the excellence of its code of ethics in its business practices are almost exact reflections of the character of the man at the top of that company."36 In some instances the fundamental ethical beliefs of such business leaders as J. C. Penny and Frank W. Woolworth have been formalized into a code or statement of policy for the guidance of their associates and successors. For example, as early as 1914 the "Penny Principles" were codified as follows:

1. To serve the public, as nearly as we can, to its entire satisfaction.


36"Yes, Mr. Batten, good morals are good business," Printer's Ink, Vol. 237, No. 5 (November 2, 1951), p. 48.
2. To expect for the service we render, a fair remuneration and not all the profits the traffic will stand.

3. To do all in our power to pack the customer's dollar full of quality, value, and satisfaction.

4. To continue to train ourselves and our associates so that the services we give will be more and more intelligently performed.

5. Constantly to improve the human factor in our business.

6. To reward the men and women of our organization through participation in what the business produces.

7. To test our every policy, method, and act in this wise: Does it square with what is right and just?37

Such statements of policy are very helpful for the use of new employees, particularly for participants in a management training program. Of course, each individual who becomes associated with a concern for the first time must correlate any such formalized statement of principles with his own business philosophy. This situation which must be faced has been characterized as follows:

One of the most important problems of the young executive is to develop his own personal code of business ethics. . . . In addition to standards of conduct in his association with other persons, the young executive has other ethical decisions to make. He must develop a moral code against which he will judge whether a prevailing policy of his company is right or wrong.38

In fact, the young executive may have to choose between tendering his resignation or compromising his own ethical

37Bunting, op. cit., p. 150.

precepts. In any event, it is the individual who sets the pattern which his organization is to follow.

Changing View Regarding the Objective of Business

With the evolution of standards in business, the divergent views concerning the major objective of business have often been a subject for consideration. Until fairly recently, profit rather than service was generally accorded to be the primary objective of business. In 1922, Roger Babson stated that "our present system is not created for the production of goods, but only for the securing of profits." This attitude was also expressed by Professor Taeusch of Harvard when, in contrasting business and professional activities, he maintained that "the objective of professional activity is and should be service, whereas the objective of business is and should be profit." These views appear to have failed to probe into the real purpose of business, that is, its reason for existence. Webster Robinson, a contemporary of Professor Taeusch, recorded an opposing view when pointed out that the statement that "we are in business to make a profit" means nothing. The kind of service that is to be rendered and the class of people to whom it is to be rendered are the important


factors. Too many concerns have no definite policy governing their actions. They operate on an opportunistic basis, taking whatever comes their way, and probably lose with each new venture all the intangible values built up by previous enterprise.41

Thus the concept of service began to recognize the function of profit as a measure of service rendered. A wider application and understanding of the social responsibilities arising from the social and economic relationships began to manifest themselves.

Divergence between service and profit was recognized by the compilers of "Principles of Business Conduct," the model code of the Chamber of Commerce of the United States in the 1920's, when its preamble included the statement that "the motives which lead individuals to engage in business are not to be confused with the function of the business itself."42 Clarification was provided by Professor R. C. Davis who maintained that while profit may be considered to be the personal objective of the businessman, the objective of the business itself is service.43

Gradual acceptance of service as the primary objective of business is closely related to the development of


43Davis, op. cit., p. 104.
ethical standards. This relationship was aptly characterized by Dean Lord, as follows:

The ethical note in business is largely or wholly due to the general acceptance of service as the basic motive for business. If it be not granted that the purpose of business is to serve, the consideration of ethical standards becomes purely academic—a parallel to the religion which is brought out on Sundays, and then carefully packed away in an unbreakable container for the rest of the week.44

In 1930, just four years after Dean Lord's remarks were published, the British management writer, Oliver Sheldon, voiced a similar view when he wrote as follows:

In so far as the motive of industry is that of service, it cannot be wholly economic. Any service which places the good of the person or community served above the advantage gained by the servant cannot be wholly economic or material. It may be economic in character but must be ethical in motive. It is this motive which distinguishes the modern interpretation of the service rendered by industry. That industry renders an economic service to the community has never been doubted; the new philosophy insists that the good of the community, furthered by such service, shall be the determining factor, rather than the monetary profit which is incidental to such service.45

Thus, it might seem that the path to a higher morality in business has been paved by those who have discovered that it pays to give good service. It has become increasingly apparent that "it takes a good businessman to provide good

44Lord, op. cit., p. 87.
45Sheldon, op. cit., p. 75.
service. If he doesn't give good service, he knows his customers will not come back, while the goods he has sold them will.\textsuperscript{46}

Modern Business and Social Responsibility

Social responsibilities of businessmen have been defined as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society."\textsuperscript{47} Recognition of his social responsibilities causes the businessman to give more attention to the ethical implications of his day-to-day activity. Whereas personal advancement may have been the governing factor in the past, now the businessman derives personal satisfaction from seeing his efforts resulting in the betterment of his neighbor, his community, state and nation as well. Although individual business leadership is the very essence of management, business is basically a social occupation. Its pursuit involves continual close relationships with the various "publics" it serves or is served by. Management is

\textsuperscript{46}Edward A. Filene, \textit{Morals In Business}, The Barbara Weinstock Lecture on the Morals of Trade delivered at the University of California, February 7, 1934 (Berkley, California: Committee on the Barbara Weinstock Lecture, 1935), p. 2.

faced with the problem of reconciling the interests of such groups as owners, stockholders, employees, suppliers, dealers, etc. Implicit in the problem is a human relations job. As executive vice-president of General Electric Corporation, Mr. Roy W. Johnson maintained that "we simply cannot run a business from a balance sheet alone—we cannot disregard human factors and say, 'Business is business.' The one thing we must recognize above all else is that Business is People." An interesting example of the realization of this viewpoint was provided by the Crown Zellerbach Corporation, manufacturers of paper and other forest products since 1870. Page one of its Annual Report for 1955 features the following statement:

**THIS WE BELIEVE**

We believe that industry today has acquired a quasi-public character. The days of the industrial tycoon are gone. Corporations are being run by professional managers on behalf of public owners—the stockholders. Crown Zellerbach started as a family business, but has become a public business with some 22,000 share owners. Moreover, a considerable portion of our stock is held by insurance companies, pension funds, and personal and investment trusts . . . so that we are indirectly owned by, and responsible to, millions of people. Beyond this, we also have far-flung responsibilities to many thousands of employees, suppliers, customers and citizens in the communities where we operate. All of these

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people are important to us, for their confidence and support are indispensable to our success.

(Signed) J. D. Zellerback, President

In the discussion of the evolutionary character of business morality, the changing pattern of "climate" of social environment has already been mentioned. Facing the businessman has been the ever-present problem of adapting his mode of operation to the particular social environment in existence at a given time. Some businessmen displayed a greater ability in such an adaptive process than others. However, business as a whole went forward in the evolutionary process. There has been speculation as to what might have happened had business failed to do so. Clarence Francis, as Chairman of the Board of General Foods Corporation, expressed his views on this point as follows: "Had business refused to adjust itself to the needs of the people and the times, I believe that an impatient public would long since have cast aside this great profit and loss system of ours." Possibly this is an over-pessimistic view, but it is not difficult to see where such a failure to adjust would have seriously hampered business development over the years.

In a discussion of the increasing attention being accorded to social responsibilities by businessmen, it would be wrong to give the impression that the trend is universal.

49 Clarence Francis, op. cit., p. 78.
There are a number of arguments advanced in opposition to the doctrine of social responsibility. One question often raised pertains to the ability of one firm to continue to pursue social objectives when its competitors fail to do so. Others are concerned with the additional costs inherent in such a program. There is also the question concerning their incidence as well as whether they are justified. Another argument considers it doubtful that some businessmen will be able to look beyond their own individual profit motive to envision service as the objective of their organization. Misuse of the doctrine of social responsibility as a device for maintaining power has constituted another contention. Another type of misuse occurs when a firm carries on public relations programs with "outside" groups while, at the same time, neglecting the moral obligations due its own employees. Likewise, stockholders may feel that their interests are being overshadowed by considerations being shown other "publics." Whatever validity these arguments may have in specific instances, they have not seriously hampered the general tendency toward a fuller appreciation of social responsibility on the part of businessmen.

50 Bowen, op. cit., pp. 107-134.
CHAPTER III

EXPRESSION OF BUSINESS ETHICS IN ETHICAL CODES AND OTHER STATEMENTS OF POLICY

Formalization of Ethical Beliefs

Largely because of the efforts of the semi-fraternal limited membership luncheon clubs (mentioned previously), trade associations and their member firms became interested in the formalization of their ethical beliefs. A number of trade associations have succeeded in codifying their business ideals. Such industrial codes have been defined as "the crystallization of the thinking of certain industrial leaders concerning ethical criteria governing business conduct within the industry."\(^1\) Emphasis upon the necessity for such a code to be geared to the problems faced by a particular concern was noted in the following definition: "A code of business and etiquette is a set of rules for action. It is morals in action. It translates moral ideas into a specific conduct, under specific circumstances."


Of course the mere possession of such a code does not insure compliance with an established standard of conduct. In the survey to be described presently, only a small percentage of these concerns found to possess formalized codes had made provision for their enforcement or even to check compliance. Codes of ethics, as standards of practice, are often considered more in the realm of social custom, hence as creeds rather than laws. Accordingly, an internal or self-regulatory type of policing might be called for. It has been said that "the code is a means of correcting trade evils and meeting professional temptations, by cooperation, definition and the setting of a goal."\(^3\) It is in this sense that ethical codes have been utilized by trade associations in raising and maintaining business standards in their respective industries. It is true that such codes, for the most part, merely record rather than create standards of good behavior. It is still the responsibility of a firm's personnel, through individual and collective effort, to give real meaning and significance to any of its business ideals—be they formal or informal in nature.

*"Model" Business Codes*

It has been stressed that, in its final form, an ethical code should be specifically designed for a particular

company. However, when the formalization of business standards was being advocated in the 1920's by the various semi-fraternal associations for businessmen, model codes were found to be most useful as guides. For example, in adopting its "Principles of Business Conduct," the Chamber of Commerce of the United States believed that "it would serve a useful purpose to collate, interpret and codify the habits and rules and standards which already exist in the minds of American businessmen and to construct therefrom a practical, ethical, business platform." Such a useful purpose has, indeed, been served. Dr. W. J. Donald, when Managing Director of the American Management Association, maintained that "of all the achievements of the United States Chamber of Commerce, its code of business practice has probably exercised more widespread influence on business and on the trend of the relations of government and business than any other single factor." Rotary clubs also had much to do with the introduction of the code system. Like the Chamber of

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Commerce of the United States, it developed a standard form to serve as a model. In its circular "On Codes" the following statement, including a check list to aid in the formulation of a code is provided:

The adequate code, covering all business relations of the craft (Business, Trade or Profession), includes a preamble followed by definite rules of conduct covering:

1. The relation of employer and employee.
2. The relation of the craftsman with those from whom he makes purchases.
3. The relation of the craftsman with his fellow-craftsmen.
4. The relation of the craftsman with professional men whose professions are interlocked with the craft (doctors with druggists, etc.).
5. The relation of the craftsman with the public generally, including the government.
6. The relation of the craftsman with the purchasing public.
7. The making and executing of contracts, with special reference to specifications.
8. Wrong practices--commercial graft, and
9. A concluding section requiring observance of the code for continued membership in the association.

It will be noted that this check list was designed to be particularly helpful to trade associations.

Trade Association Codes

A trade association has been described as "A loose form of combination, which is intended to produce unity of action among corporations, without control."7 One method

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of securing this objective of unity of action has been the adoption and promulgation of a formalized ethical code. Significant growth of the trade association movement started about 1911 and received considerable emphasis from the need to step up productive efficiency during World War I. Then came the attempts by Rotary and others to interest these associations in the formulation of ethical codes. That these efforts achieved some measure of success in a short time is evidenced by the following statement, referring to trade associations, published in 1925:

No greater benefit from such associations has come than the codes of ethics and standards of practice already so widely adopted. These go to the very root of business backwardness and obstacles. They have tended to take off the sharp, crude edges of competitive malpractice and substitute the rule of reason and fair play, as well as higher efficiency, which is in reality the mainspring of the whole movement. No one wishes to make Sunday school out of trade associations gatherings, or to impose any laws or precepts for the sake of any abstract ideal of conduct. The guiding thought has been the riddance of business barnacles, the "cleaning up" of objectionable, harmful factors, and the speeding up of prosperity and profit thereby. 8

Just a year later, a somewhat more guarded evaluation was made by Edgar L. Heermance who observed that "written codes, where they grow out of experience and have been adopted in

Considerable variance is noted in the form taken by trade association codes. In some instances a short statement printed upon a small card which could be displayed easily is used. For example, the Automotive Parts Rebuilders Association has used the following statement:

CODE OF ETHICS

To Aid in the Advancement of the Automotive Parts Rebuilding Industry at ALL Times.
To Constantly Strive to Maintain a High Quality Standard that will Assure the Customer of a Trouble Free Unit, Mechanically Correct in Every Respect. To Aid The Automotive Trade in Every Way by Ethical Merchandising, Attractive Packaging, Informative Concise Cataloging and Sales Instruction.

Other trade associations have adopted much more detailed codes. An excellent example is provided by The Gray Iron Founders Society, Inc., one of the associations selected for detailed investigation in this study. This code, published and distributed in booklet form, is reproduced in full in Appendix D. Ranging between these two examples are documents of varying length carrying such titles as "Our Business Code," "Rules of Ethical Practice," "Principles of Business

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NIRA codes were also examples of formalized codes at the industry level. They will be considered in the discussion of the role played by government in code-making. Although called "codes of ethics," they usually dealt with economic rather than ethical problems. Although the legislation under which they were formulated was subsequently declared unconstitutional, some industries still observe at least parts of their provisions or have transformed them into regular codes or sets of trade practice rules.

Examples of Company Codes

In form, ethical codes at the company level are found in the variations already noted in the case of industry codes. Two examples which have been given considerable publicity in management literature are those of The American Brake Shoe Company and Johnson and Johnson:

OUR AIM

To build a company which gives greater security to its people... employees and stockholders.
This means making our company
---A better place to work
---A better neighbor in the community
---A better company to sell to
---A better company to buy from
---A better company to invest in
To achieve this Aim we must find for everything we do--a better way

(Signed) Wm. B. Given Jr.
Chairman

AMERICAN BRAKE SHOE COMPANY
OUR CREDO

We believe that our first responsibility is to our customers
Our products must always be good, and we must strive to make them better at lower costs.
Our orders must be promptly and accurately filled.
Our dealers must make a fair profit.

Our second responsibility is to those who work with us--
The men and women in our factories and offices. They must have a sense of security in their jobs. Wages must be fair and adequate.
Management just, hours short, and working conditions clean and orderly.
Workers should have an organized system for suggestions and complaints.
Foremen and department heads must be qualified and fair minded.
There must be opportunity for advancement--for those qualified and each person must be considered an individual standing on his own dignity and merit.

Our third responsibility is to our management
Our executives must be persons of talent, education, experience and ability.
They must be persons of common sense and full understanding.

Our fourth responsibility is to the communities in which we live.
We must be a good citizen--support good works and charity, and bear our fair share of taxes.
We must maintain in good order the property we are privileged to use.
We must participate in promotion of civic improvement, health, education and good government, and acquaint the community with our activities.

Our fifth and last responsibility is to our stockholders.
Business must make a sound profit.
Reserves must be created, research must be carried on, adventurous programs developed, and mistakes made and paid for.
Bad times must be provided for, high taxes paid, new machines purchased, new factories built, new
products launched, and new sales plans developed. We must experiment with new ideas. When these things have been done the stockholders should receive a fair return. We are determined with the help of God's Grace, to fulfill these obligations to the best of our ability.

JOHNSON & JOHNSON

One of the earliest formalized statement of policy still in current use is the "Armco Policies" originally approved by the board of directors of the Armco Steel Corporation in 1919. In more recent years such companies as International Harvester and P. R. Mallory & Co., Inc. have found it advantageous to formalize their basic policies. In so doing, of course, such companies go on record publicly. This enables the public to compare actual results with voiced intentions. Additional data regarding company codes will be presented in the discussion of the survey of trade association memberships in later chapters.

Characteristics of Ethical Business Codes

The tendency for many business codes to be general and somewhat idealistic, rather than practical in form, has often been raised as an issue so far as their usefulness and effectiveness is concerned. While there is no necessary conflict between idealism and good business, there is always the problem of transmuting an ideal into action within the business organization. According to Edgar L. Heermance,
a code should be designed to serve an immediate practical purpose.

It is not a statement of general morality. It deals with the customs and ideals, the sins and duties, of a particular group of men. Ethical principles are stated in terms of their daily business experience. The code which falls short of this, or attempts to go beyond it, is likely to become a series of platitudes.¹⁰

At the same time "It is the nature of ethical codes that rules cannot fit all cases. Exceptions and dilemmas must from time to time arise."¹¹ While the basic precepts which underlie ethical standards are very slow to change, the rules which evolve from them must be dynamic through constant adaptation to new conditions.

In the survey of trade association memberships, it will be shown presently that unwritten codes were found to have been adopted in much greater numbers than written codes. It has been stated that "the written codes set a higher standard than the unwritten and lay more emphasis on the obligation of service."¹² Possibly the greatest defect of the unwritten code is its lack of definiteness—a characteristic which has already been noted as an important quality

¹⁰Heermance, *Codes of Ethics, op. cit.*, p. 2.


for a written code to possess. This deficiency is noted
with the use of the "Golden Rule," the basis of many unwrit­
ten codes, which stresses duty. In dealing with a concern
which bases its transactions upon this basic idea of duty,
the public is often in doubt about just what it has a right
to expect. Inability of the Golden Rule to provide a full
substitute for a written code has been stated as follows:

The Golden Rule is certainly a code worth having
but it is only a small part of human ethics as
applied to business. There are many phases of
business practice that must be thoroughly spelled
out if they are to be controlling influences in
man's daily living.13

In formalizing their ethical beliefs, companies have
sought to spell out various phases of business practice so
as to provide a set of standards of mutual benefit to the
company and its various "publics." Additional benefit
derived from formalization has been very well expressed as
follows: "The ideals of men best project themselves into
reality when crystallized in written documents. . . . In
every line of human activity, a united written expression
of that which is best for the common good becomes a strong
force for progress. The mere expression clarifies the gen­
eral sentiment."14

13 J. Whitney Bunting, Ethics for Modern Business

14 Heermance, Codes of Ethics, op. cit., pp. 1-2.
Value and Usefulness of Ethical Codes

To know the codes of ethics of the tradesmen and professional men with whom you are dealing, to know what you as customer or client have a right to expect of them, to hold them to their standard, to lend them your support in putting down unethical practices, to follow these standards yourself in your dealings with them—will help to build up the community sentiment which is the basis of all social ethics.15

Summarized above are some of the major advantages to be derived from ethical codes in business. Clarification of the various relationships between a company and its many "publics" was especially emphasized by Dr. Cabot of Harvard when, in 1926, he maintained that written codes "are of great value because they force vague understandings to take clear unambiguous shape."16 Codes of ethics can provide a standard in accordance with which a firm may guide its business conduct. To be fully effective, however, a code should not be limited to the listing and prohibition of particular unfair practices. It should go further to assume a more positive theme. Professor Howard K. Bowen has made this point most effectively, as follows:

To be significant and useful a code must seek to raise the level of marginal and tolerated practice and to raise a standard of excellence which is supported as ideal and practicable by a genuine consensus. More important than


putting a formal ban on practices already
definitely disapproved by the community is a
pushing upward of the "central tendency," a
strengthening of ethical consensus, that will
keep a functional group abreast of the develop­
ing public conscience.17

Business codes have been compared with examples of
professional codes which have preceded them. It has been 
observed that "it is not a mere coincidence that the profes­
sional associations were the first to adopt written codes of
practice. They were the first vocations to develop group
consciousness and a sense of public service."18 It is only
natural that in the further development of business and pro­
fessional codes certain differences, so far as areas of
emphasis is concerned, should appear. For one thing, the
attitude toward competition is responsible for significant
variations. Of course, both groups have been interested in
furthering the basic underlying principles of honesty and
fair play. With the aid of definite written standards, it
has been maintained that "the businessman begins to develop
something of the self-respect and pride of craft which the
code has long given to the doctor and the lawyer."19 It is
interesting to note that this statement was made thirty years
years ago. Although the development which is mentioned here

17Howard R. Bowen, Social Responsibilities of the
Businessman (New York: Harper and Brothers, Publishers, 1953),
p. 256.
19Ibid., p. 23.
is extremely difficult to measure quantitatively, the survey of industry and company codes in the metal products industry will tend to show that significant advances have been made.

In the previous chapter the evolutionary character of the development of ethical standards in business was mentioned. By 1926, students of business and professional ethics had detected a trend. Professor Carl T. Taesch of the University of Iowa summarized it as follows: "Continued interest in and development of codes of professional and business ethics is symptomatic of an awakening conscience in men of affairs; it represents the most powerful and effective contribution to current social welfare and civic morale."\(^{20}\) Positive motives of businessmen were further emphasized by Professor Taesch when he asserted that "the very fact that hundreds of business organizations have in recent years drawn up 'codes of ethics' or 'standards of business conduct' is an index of the desire of businessmen to deal more openly and fairly with their customers and their competitors."\(^{21}\) It must be recognized that such positive views were not universal. In the earlier days there were those who were not nearly as optimistic. Some of the factors underlying a more negative view will be explored presently. Likewise, in the current


\(^{21}\) Ibid., p. 245.
survey it was found that the number of member companies (of
the trade associations selected for study) finding formalized
codes to be of value was more than equalled by those who did
not.

Enforcement of Ethical Codes

Voluntary self-regulation, rather than legal restric-
tions, typifies the method of control used by professional
and business organizations in the enforcement of their
ethical codes. In most instances the effectiveness of the
code depends upon the force of public opinion upon the con-
sciences of those individuals who comprise the membership of
the particular association or firm. It will presently be
shown that in the survey of associations in the metal
products industry, a small percentage of the organizations
were found to possess definite provisions for the enforcement
of their codes. In some instances the threat of exclusion
from the association can be effective. However, this is much
more effective in the case of professional codes than it is
in business. In the latter case, legal questions arise if
the exclusion is affected through controlling access to
markets or supplies.

Difficulties in enforcement of a business code have
been described as follows:

It is not easy matter to ascertain violations
of such a code without recourse to a spy system
which readily can develop into an obnoxious
police organization. And it is difficult to find sanctions for enforcement which can be applied without virtual nullification of the antitrust laws.22

As a general rule, a smaller association with a selected membership is able to enforce compliance more readily than the larger organization which must rely, for the most part, upon moral suasion. With the lack of a regular procedure for enforcement, however, an effective control is seldom realized.

Criticism of Ethical Codes

Difficulties encountered in the formulation and, more particularly, in the enforcement of ethical codes have already been mentioned. "Ideal" characteristics of a code, rather than the more detailed "practical" aspects, have often been the target for criticism. Earlier codes, as well as those formulated more recently, have been denounced on this basis. In 1928 the following statement appeared in The Forum:

Business will begin to move toward a truly higher ethics when it quits making pretty verbal flourishes about God and the flag and service and gets down seriously to the business of outlawing this sort of thing. When the great corporation official who exploits his corporation is written down by businessmen as a grafter, like the public official who exploits his city and country, then there will be some excuse for boasting of the "morals of modern business."23

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Twenty years later a similar viewpoint was voiced by Professor William A. Orton as follows:

The modern tendency is to invoke general phrases, such as the "common good" or the "public welfare" or the "interest and security of the United States," then leave somebody else to define and apply them while we go about our business, and over cocktails complain of bureaucracy.24

Mere existence of an ethical code without implementation, via the personal force of deep convictions on the part of individuals and serious attempts at enforcement, has been, then, the concern of those interested in the evolution of business standards down through the years.

As pointed out in the statements quoted above, verbalization of high-sounding principles will not, in itself, insure compliance. It must be adhered to in spirit as well as in word. Accordingly, it must reflect the day-to-day working convictions of its authors. For, as has already been noted, the code is merely the crystallization of their ethical beliefs. Effective implementation must follow, for it has been so aptly observed that "for a business group to content itself with passing resolutions against unfair practice is like using an incantation to cure pneumonia."25


Existence of a correlation between unsatisfactory business conditions and the attention paid to business ethics has often been claimed. For example, it has been asserted that "when an industry is prosperous, it is likely to feel less keenly the necessity for standardizing business practice."\(^ {26}\) When, however, attention is centered upon an attempt to raise the level of conduct, it has been claimed that "the very existence of a code implies that the actual level of conduct is on a lower average plane than the code acknowledges."\(^ {27}\) In the management code survey, to be reviewed presently, some companies indicated that this situation accounted for their failure to adopt a formal code. It was felt that any activity along this line would be interpreted as an attempt to cope with unethical procedures now in existence. To a degree, the same type of correlation was suspected when some of the early codes tended to be "too largely negative, too much composed of "Thou shalt nots."\(^ {28}\)

Still another criticism of ethical codes has been that such standards result in the freezing of current practices.\(^ {29}\) The need for business codes to keep pace with

\(^ {26}\)Heermance, *The Ethics of Business*, op. cit., p. 120.

\(^ {27}\)Clark, *Social Control of Business*, op. cit., p. 203.


\(^ {29}\)Davis, op. cit., p. 121.
changing times has already been discussed. It was found in the management code survey that when companies did adopt formalized codes, there were few attempts to review and amend them in subsequent years.

Roles Played by Government in Code-Making

It has already been pointed out that regulatory legislation does not provide a substitute for ethical codes in business. Such laws "have tended to follow behind the standards set by practice, and have attempted to restrain the worst actors rather than to set desirable standards for normal action."\(^{30}\) Restrictive purposes were particularly noted in government policy during the early development of our economy. State government preceded national efforts to deal with problems pertaining to such fields as banking and the railroads. During the evolutionary years, which saw such rapid expansion of our economy, "self-preservation" seemed to be the rule in business life. As has already been indicated, this did allow more rapid progress than would otherwise have been possible. Gradually, however, the need for measures to protect the public interest became apparent.

Serious doubts have arisen concerning the feasibility of legislating compliance with ethical codes. For example, it has been maintained that "in business as in private life

\(^{30}\)Dennison, op. cit., pp. 2,3.
the attainment of really high standards of conduct is achieved not by legislative pronouncement but by voluntary recognition of what is right and decent.\textsuperscript{31} For maximum effectiveness, the ethical code of a particular company must be designed to cope with its individual problems. Legislation, on the other hand, must, of necessity, adopt a more general approach. Of course, occasionally \textit{ad hoc} legislation is enacted to deal with specific situations, but more typical of regulatory legislation in this area are the Sherman Act of 1890, the Federal Trade Commission Act of 1914, and the Securities Exchange Act of 1934. Such laws as these, properly enforced, succeed in protecting the public interest through the elimination of specific prohibited practices. They can do little, however, to curtail day-to-day unethical, though legal, acts which may abound in business life. In the 1930's the government did make an attempt to extend its regulatory activities into the area of code-making.

\textbf{National Industrial Recovery Act and Codes of Fair Competition}

Prior to the New Deal era the role of government in the area of business ethics had been limited to regulatory activity when the public interest was involved. Then, with the establishment of the National Recovery Administration in 1933, businessmen organized in industry groups were encouraged

\textsuperscript{31}Copeland, \textit{op. cit.}, p. 211.
to formulate codes of business practice. Once proposed, they were subjected to public hearings, examined by NRA specialists, and finally submitted to the President for approval. In the event an industry failed to formulate an acceptable code, the President had the power to prescribe one. While the initial role of government was that of organization, the law provided that later the government was to ensure enforcement of the agree-upon provisions.

Basically the NRA covered good business relationships in the following categories:
1. Relations with other firms in the same industry.
2. Relations with other industries.
3. Relations with the general public.
4. Employer-employee relations and
5. Relations between government and business.32

These business relationships were reflected in the subject matter given emphasis in the codes of practice. Broadly classified, the two major objectives of the NRA Trade Practice Programs were said to be (1) the control of destructive competition and (2) the control of unfair practices.33 Price policies and other economic problems were most frequently dealt with in the NRA codes even though they were referred to as "codes of ethics."34

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32Bunting, op. cit., p. 33.


During the period in which the National Recovery Administration was in operation, over seven hundred industries promulgated code rules. While the National Industrial Recovery Act lasted only two years before it was declared unconstitutional, this legislation, along with the Securities and Exchange Act of 1935 and the Wagner Labor Act of 1935, have been said to characterize "the first major attempt of the government to control business operation and practice and to require conduct of business affairs on a specified moral level." Despite its short life, the NRA did inaugurate some practices which were to have effects of lasting significance. Trade associations were strengthened considerably. Interest in ethical business codes was renewed and continued after the court decision invalidated the Act in 1935. While the New Deal era is often remembered for the influx of government into business, it also appears to have introduced the practice of widespread participation of businessmen in government. Subsequent years have seen considerable extension of this practice, the results of which have been described as follows:

Working with government provided a broadening experience for many businessmen. Although usually called into government because of their knowledge of particular industries, businessmen were frequently forced to think—sometimes for

35 Pearce, op. cit., p. 3.
36 Bunting, op. cit., p. 57.
the first time—about the relations of their particular firms and industries to the needs and problems of the whole country. This was a new and vital experience, and it inevitably influenced their thinking in relation to their own business decisions.37

Trade Practice Conference Rules

Since its formation in 1914, the Federal Trade Commission has directed its activities toward the protection of the public welfare. One such activity has been the trade practice conferences. Stages in their development have been described by Myron W. Watkins of the National Industrial Conference Board.38 During the initial stage (1919-1926), informal conferences of an ad hoc character were held—usually initiated by the Commission to deal with some particular abuse. Increasing interest in the program resulted in the creation of a Division of Trade Practice Conference in the Federal Trade Commission in 1926. In the following five-year period 132 conferences were held. Proposed trade practices rules were divided into two groups: Group I, consisting of compulsory requirements; and Group II, containing permissive practices and recommended voluntary restrictions. Misuse of the Group II category came to the Commission's attention; and, in 1931, the Commission reviewed all

37Bowen, op. cit., p. 77.

previously approved conference rules and drastically revised a number of them. This revision of codes marked the end of the second stage. Enactment of the National Industrial Recovery Act in 1933 ushered in the third stage. During the next two years the development of the NRA codes overshadowed the trade practice conference procedure.

Only after the invalidation of the vital features of the National Industrial Recovery Act in 1935 were the trade practice conferences resumed on a significant scale. Among the conferences being carried on about this time was the one held by the radio receiving set manufacturing industry. A set of trade practice rules was promulgated by the Federal Trade Commission for this group in July, 1939. When the scope of the industry expanded with the coming of television and electronics, the Radio-Electronics-Television Manufacturers Association (RETMA) sought to bring their rules up to date. After an initial Trade Practice Conference in 1951, and subsequent meetings, the revised rules, in their final form, were promulgated by the Federal Trade Commission in June 28, 1955. RETMA was selected for detailed study in this study as representative of a trade association which operates under a set of Federal Trade Commission Trade Practice Rules. The current rules, in complete form, are reproduced in Appendix E.

As will be shown in the discussion of the management code survey, Federal Trade Commission trade practice rules
usually provide a more thorough coverage of trade practices than is found in most ethical codes. They also are more likely to provide for some agency for enforcement. However, it must be pointed out that only a small percentage of either the formalized codes or sets of trade practice rules was found to be checked for compliance or actively enforced.

Evaluations of the effects of the trade practice conference procedure cover a wide range. In 1930 a view was expressed which would be as timely today: "The effectiveness of the entire trade practice procedure will depend upon the extent to which industry, with the support of the Federal Trade Commission, will enforce the self-imposed rules of business conduct." 39 Just two years later a much more pessimistic opinion was evidenced, so far as ultimate benefits are concerned, when it was asserted that "it would seem that the interests of the consumer have received remarkably little consideration and that benefits to him have been assumed rather than demonstrated." 40 In 1940 some of the problems which developed out of the trade practice conference procedure and hampered its effectiveness were pointed out in the following statement:

It may be concluded that until an earnest effort is made by the Commission to free the trade practice conference procedure from the bonds of legal


formalism, and to utilize the rules promulgated as a basis for administrative action, its full potentialities will not be realized. As trade practice rules now stand they represent little more than a gesture of good will on the part of the Commission and a token of good intentions on the part of business. These things are not enough to raise the plane of business conduct to the level the public interest requires and that is practicable.  

Opinions are still divided concerning the effectiveness of the use of trade practice rules. When the members of the Radio-Electronics-Television Manufacturers Association, operating under a set of Federal Trade Commission trade practice rules, were asked to comment upon the success of the procedure in their own industry, it will presently be shown that there was considerable diversity of opinion. Yet, the industries which have chosen to work out such a set of rules have, of necessity, been called upon to cope with many of the same problems which have faced trade associations seeking to develop formalized ethical codes.

Continuing Governmental Interest in Business Morality

While the direct participation of the government in code-making activities was short-lived, the various governmental agencies have continued to be interested in the ethical aspects of modern business practice. World War II, followed by the Korean episode, gave many opportunities for governmental representatives to evaluate business practices

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through the negotiation, operation under, renegotiation, and termination of government contracts. Then, too, the general public seemed to look more and more to the government for regulation of ever-widening areas deemed to be of "public interest." As mentioned before, the increase in the interest of government in business seemed to be accompanied by an influx of businessmen into government service. This resulted in raising the issue regarding just what business ties are proper for a businessman in government work. There has been considerable interest on the part of the general public in specific cases where this issue has been raised. It is a problem which concerns governmental and business interests alike. It appears quite likely, then, that through its various agencies the government will continue to exhibit a real interest in business morality. In some cases, it will take the form of regulatory legislation. In other instances, such groups as trade associations will be encouraged to foster and maintain interest among their memberships in the conduct of their business activities with full recognition of the ethical concepts involved and the growing sense of social responsibility.
CHAPTER IV

BUSINESS ETHICS AND CONTEMPORARY PUBLIC RELATIONS

Introduction

In the survey of trade associations in the metal products industry and the memberships of those associations selected for further study, it was considered important to attempt to ascertain the pattern of relationships with the various "publics" with which these organizations deal. Results of this phase of the inquiry will be reviewed presently. However, by way of introduction, this chapter will have as its purpose a short review of the nature of public relations, description of its relation to business ethics, and brief mention of some of the contemporary problems in this area. The respective types of business relations (consumer, supplier, dealer, government, etc.) will be treated in the following chapter describing the survey at the trade association level.

Public Relations in Business

Public relations has been defined as "the function which evaluates public attitudes, identifies the policies and procedures of an organization with the public interest, and executes a program of action to earn public understanding
and acceptance. More simply, public relations has been characterized as "good works understood by the public."\(^1\) In both instances emphasis is placed upon both actions and works. A company may encourage activities which serve to give added recognition to its social responsibilities. However, if the public is not informed of these practices, they may go virtually unnoticed. Adequate publicity introduced with a sense of proper timing will go far in achieving mutual benefits from a company's good citizenship.

Victor H. Scales, while serving as Director of the Department of Public Relations of the American Petroleum Institute, asserted that "business cannot avoid public relations. Always it has them. They may be good or bad or indifferent, but they are there to be cultivated, used, or neglected."\(^2\) During the earlier stages of American business, the typical owner-manager dealt directly with his customers, suppliers, and other members of his community.

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3Victor H. Scales, "Public Relations in Industry," Summary of Lectures and Discussion of The Short Course in Public Relations conducted by the American Council on Public Relations with the joint cooperation of the University of Wisconsin and the Milwaukee Vocational School at 1015 N. Sixth Street, Milwaukee, Wisconsin, February 19-March 1, 1940, p. 119.
However, with the organizational growth and development characteristic of more recent times, the gap between business management and its various "publics" has widened. In a study of the activities of large corporations, Nugent Wedding concluded that most public relations programs can be classified into either preventive or remedial public relations. He differentiated between the two groups as follows:

Preventive public relations denotes a long-run program with well-defined and established objectives, developed after a thorough study of the prevailing conditions. In addition to fulfilling corporate social responsibilities, the underlying purpose of such a program is to maintain continuous, cordial relationships with the public by precluding any sources of misunderstanding or friction. The other type of program, referred to as "remedial," is of an emergency nature in contrast to the preventive. It is the kind that swings into action when little has been done to forestall some specific crisis that arises. When a fire breaks out, so to speak, a remedial public relations department marshalls all the forces at its disposal in an attempt to salvage enough public support to bolster its position. . . . Needless to say, the preventive type is considered far more progressive and desirable than the remedial.  

Whether preventive or remedial, public relations is commonly considered to be the responsibility of top management. In 1906 Arthur Twining Hadley, then President of Yale University, observed that "the president of a large corporation is in a place of public trust. In an obvious sense he

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is a trustee for the stockholders and creditors of his corporation. In a less obvious but equally important sense he is a trustee on behalf of the public."\(^5\) Some forty-five years later, similar views were expressed. In 1951, Jackson Martindell, as president of the American Institute of Management, maintained that "to earn public confidence, a corporation must be managed by efficient men possessed of integrity, culture, social responsibility, and human understanding."\(^6\) A year later, Robert B. Semple, of the Wyandotte Chemicals Corporation, speaking at the twenty-second meeting of the American Chemical Society at Atlantic City on September 18, 1952, strengthened this view as follows:

The more I get into the subject of public relations and the responsibilities of a company or an industry, the more convinced I become that the key to good public relations for a company or an industry is held tightly in the hands of management, because management alone can encourage and make the policy decisions which govern the degree of esteem in which a company or an industry will be regarded by its neighbors and the public as a whole.\(^7\)


\(^7\)Robert B. Semple, "The Public Relations Activities of Industry," *Chemical and Engineering News*, XXX, No. 51 (December 22, 1952), 5352.
In order that such public relations that "begin at home" be most effective, Professor Howard R. Bowen has maintained that "each company must pursue sound and ethical practices and must then concentrate on communicating its own accomplishments to the public, rather than harp on abstractions like 'the free enterprise system' or 'the American Way.'" Of course consistent ethical conduct on the part of a company or an industry provides support for these concepts. In other words, they must be lived rather than professed glibly. Such ethical conduct, to be lasting, must be based upon sound policy. The relationship between policy and public relations has been pointed out aptly by W. C. Patterson, Vice-President of the Michigan Bell Telephone Company, as follows:

An absolute requisite for any organization's having good relations with the public is the development of basic policies that are deserving of public approval. Indeed, I would say that unless the fundamental policies of a company are soundly conceived—unless those policies are in the public interest—no amount of public relations activity can succeed over the long pull in producing a favorable public attitude. And for that reason, company policies must be the first concern of a public relations officer.⁹


Following the development of sound policies, a company often considers the advisability of formalizing such concepts into ethical codes or other statements of policy. Examples of the views of company representatives in the metal products industry on this point will be presented in later chapters.

Ethics and Public Relations

It has been claimed that "no profession, indeed, poses more ethical problems, even for its ablest people, than the practice of public relations."¹⁰ Perhaps this is due to the large amount of personal contact in the field. Behavior on the part of a company is often related to that of an individual in so far as proper respect for the rights and privileges of others are concerned. As stated previously, the responsibility for the development of an ethical approach is vested in management. Jackson Martindell has asserted that "good company manners cannot be bought, imported, created by specialists, or merely confined to the public relations department."¹¹ Yet, the day-to-day relationships of a company's personnel with the various "publics" sets the pattern for its behavior. Edgar M. Queeney of the Monsanto Chemical Company has said that public relations "seeks to endow a corporation with that which in an individual would be good

¹¹Martindell, op. cit., p. 1.
manners and good morals."\textsuperscript{12} This can only be true if the actions of company representatives reflect such good manners and good morals in their respective contacts with other individuals both within and beyond their own organizations. In constraining its activities according to definite policies based upon ethical criteria, a company not only benefits itself, but others as well. As Bruce Barton has been quoted as saying, "No major industry has the moral right to allow itself to be unexplained, misunderstood, or publicly distrusted; for by its unpopularity it poisons the pond in which we all must fish."\textsuperscript{13} An imprudent act on the part of one company may result in public distrust, to a degree, of the particular industry and possibly business as a whole. Thus business has an affirmative as well as a negative responsibility in so far as ethical conduct is concerned. In the exercise of the businessman's economic power, "the people have the same right to demand an honest statesmanship in the use of that power as they demand from the political power of the men they elect to office."\textsuperscript{14} This is particularly true where there is widespread ownership. Recognition of the vastly important role played by public opinion today was

\textsuperscript{12}Forster, \textit{op. cit.}, p. 692.

\textsuperscript{13}"Business is Still in Trouble," \textit{Fortune, op. cit.}, p. 200.

given by one of the contemporary writers in the field of business ethics, J. Whitney Bunting, when he stated that "the greatest regulating force in the nation today is that of public opinion. The impact of public disapproval upon unethical business practice can cause great improvement upon the policies used by management." This author recognizes that this may be a slow process, but one that is ultimately effective.

**Recurrent Problems**

It has been pointed out previously that the nature of the relations of a business enterprise with its various publics may well determine its ability to operate continuously and earn satisfactory profits. As it has been put so cogently: "Upon what this public thinks of you—rather than upon what you think of it—depends the success or failure of your business enterprise." Accordingly, a business must earn the confidence of its publics. This confidence emerges as the result not only of doing the right thing, but being known as doing the right thing. In a sense, then, public relations involves, in part, "selling" the company as well as the product. An interesting analogy illustrating the

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contribution of ethics in public contacts to business efficiency has been made as follows:

Executives are realizing that, as oil lubricates the fast-moving gears of mechanical industry and keeps them in efficient operation, so does the lubricant of courtesy and honest endeavor, coupled with decent motives, keep the public contact of a business organization smooth and efficient.17

Despite the significant advances that business has made in both the production and distribution of an ever-growing volume of goods, ethical questions continue to be raised in regard to the methods employed. Both through individual efforts and trade and other types of business associations, companies seek to defend their respective practices. Possible consequences of this type of activity have been described by John Galbraith, as follows:

The elaboration of a defense in itself raises questions; it must always cause speculation whether some misbehavior or social malfeasance lies behind the explanations. . . . It is worth wondering whether the defense of business, in the absence of any real attack, has served merely to invite . . . speculation and suspicion.18

In recent years it appears that businessmen have felt that, despite such considerations, it was necessary to make a defense to safeguard the free enterprise system. Methods

and procedures then became the center of attention. In this regard, Mr. Galbraith observed that

if the business case must be offered, it had best be based on performance--performance fully and carefully argued, and directed not at those who are already disposed to believe but rather at those with a critical tendency to disbelief.\(^{19}\)

Such a tendency to disbelief often has been the result of the reluctance on the part of business to publicize its activities. As Noble D. Travis, Vice-president of the Detroit Trust Company observed, "In the eyes of the public, there can be only one reason why an enterprise is secretive about its activities, and that is, they have something to hide."\(^{20}\) Asserting that "secrecy invariably breeds distrust,"\(^{21}\) Mr. Travis maintained that because business has been too secretive in the past, now much time and expense must be spent in trying to correct the false ideas the public received.

A quite common technique employed by businessmen in their own defense is the luncheon or dinner sessions of various business associations. The effective work of such groups in the formulation and promulgation of formalized ethical codes has already been referred to in a previous

\(^{19}\)Ibid., p. 43.


\(^{21}\)Ibid.
chapter. However, speculation has arisen from time to time as to the value of some of their sessions designed to defend their own practices. In an article whose title "Industry Can't Sell Ideas by Talking to Itself" set the theme, the problem was posed as follows:

The greatest resistance to all programs designed to preserve our freedoms lies with the people they are designed essentially to protect—the businessman. Groups of industrialists are prone to herd themselves around a banquet table, listen to speeches with which they are in entire agreement, concur with the speakers that immediate steps must be taken, and then proceed into the fresh mid-afternoon air and forget all about it.22

This view concurs with that expressed by Mr. Galbraith, quoted above, to the effect that arguments based upon performance are of limited value when directed at those who are already in agreement.

There is much interest today in business circles in the subject of communication. As companies have grown and lost the intimacy which existed in earlier days, new techniques have been devised to bridge the ever-widening gap between the employer and his various "publics." Programs have been instituted to make more information available to the employee, stockholder, dealer, supplier, and other interested parties. Continuation and supplementation of such programs after a test period would seem to indicate the

belief that their value and effectiveness have been worth the cost involved. However, a *Fortune* article was not so optimistic when it reported:

> Never before has the businessman had so much paraphernalia with which to communicate to those about him, and never before has he spent so much time using it. And more and more as he looks about him, he is coming to wonder... Is anybody really listening? The evidence is frighteningly strong that they aren't. The employee, surveys indicate, is as misinformed about business as ever. Even the stockholder seems to have remarkably little interest in what management has to say to him; the public even less, and the government none at all. Not since the early thirties has business been so troubled by the gap between it and the rest of society.23

Of course, the views expressed here are not conclusive. However, as will be shown in the returns from the management code survey presently, such views might well prompt management to seek to develop methods for measuring the effectiveness of their communication techniques.

Another recurring problem is the so called plight of the small businessman in his competitive struggle with "big business." Methods used are often critically appraised so far as their ethical aspects are concerned. A contemporary writer has phrased the problem as follows:

> Whenever the small businessman misuses the power of his money to win an unfair profit with a sharp deal, he can argue that he has merely won a battle with an enemy in the struggle for

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existence. It is a weak argument. He has dis­
graced himself in a small way and earned the
hate of the victim for himself and probably
his class.\textsuperscript{24}

It will be shown presently how, through formalized ethical
codes or other statements of policy promulgated by trade
associations, groups of business concerns of various sizes
are seeking to establish a pattern for their relationship--
internal, among themselves, and with others. Underlying these
activities is the basic determination to retain and support
the free-enterprise system. However, there are even limita-
tions to this objective. Clarence B. Randall, as President
of the Inland Steel Company, has pointed out that

the free-enterprise system is not just a hunt-
ing license to you to get all that you can get
without restraint. The free-enterprise system
is a way of life which brings the greatest
good to the greatest number, but it must be
policed by the free market. The two are in-
separable.\textsuperscript{25}

With the adoption of a formalized code or other state-
ment of policy, a company goes on record by affirming the
basic ethical beliefs of its leadership. Once this is done,
the day-to-day operations of the company are judged accord-
ingly. While it takes a long time for a company to win
public confidence once gained, every effort must be exerted
to retain it. It has been stated that "constant striving
on the part of management is needed merely in order to

\textsuperscript{24}McComb, \textit{op. cit.}, p. 88.

\textsuperscript{25}Clarence B. Randall, "Free Enterprise Is Not a
Hunting License," \textit{Advanced Management}, XVII, No. 6 (June,
maintain the present ethical position of business." Additional efforts are required if advancement is to be realized. In view of the persistency of this recurrent problem, the situation which business faces has been very aptly described as follows: "The problem of business ethics, like the problem of morality generally, is a neverending business—a constant summons to the best in us."27

In addition to the recurrent problems, a few of which have been mentioned here, new developments in methods and techniques will raise additional issues with ethical implications. Showing considerable foresight, a half century ago Arthur Twining Hadley, then President of Yale University, stated the problem in a manner which is just as valid today as it was then:

Industrial corporations grew up into power because they met the needs of the past. To stay in power, they must meet the needs of the present, and arrange their ethics accordingly. If they can do it by their own voluntary development of the sense of trusteeship, that is the simplest and best solution. But if not, one of two things will happen: vastly increased legal regulation, or state ownership of monopolies. Those who fear the effects of increased government activity must prove by their acceptance of ethical duties to the public that they are not blind devotees of an industrial past which has ceased to exist, but are preparing to accept the heavier burdens and obligations which the industrial present carries with it.28

26 Bunting, op. cit., p. 251.
27 Watkins, op. cit., p. 17.
28 Hadley, op. cit., p. 96.
CHAPTER V

SURVEY OF TRADE ASSOCIATIONS IN THE
METAL PRODUCTS INDUSTRY

Introduction

The metal products industry group, composed of some 450 trade associations, as listed by Jay Judkins in National Associations of the United States issued by the U. S. Department of Commerce, was selected for the initial survey by the SAM Management Code Project Committee. Of the total of approximately 2,470 trade associations in the United States, the metal products group has the largest number.

Based upon the standard classification used by governmental agencies, the National Trade Associations in the Metal Products Industry were classified into the following categories:

1. Primary Metal Industries
2. Fabricating Metal Products (Except Ordnance) Machinery and Transportation Equipment
3. Machinery (Except Electrical)
4. Electrical Machinery, Equipment and Supplies
5. Transportation Equipment
6. Professional Scientific, and Controlling Instruments; Photographic and Optical Goods; Watches and Clocks
7. Miscellaneous Manufacturing; and
8. Unclassified.

The complete breakdown of these classifications is presented in Appendix A of this report.

After duplications were eliminated, a letter (see Appendix A for copy of this letter) was sent to 356 trade associations in the metal trades industry in April, 1952. The letter sought to obtain

1. Information relating to the adoption of a code of ethics;
2. A copy of the association code; and
3. A copy of the association's membership list (to be used to request copies of codes and other information from the individual firms).

In the event the association did have a code, a further request was made for a brief explanation of how compliance is checked. The associations not having codes were asked to indicate the major reasons for not adopting such a guide for their operations. A follow-up letter was sent in August, 1952, to those associations in the metal products group not replying to the initial survey letter.

Replies were received from 145 or 40.73 per cent, of the 356 associations surveyed. A breakdown of the number of letters sent, replies received, and the percentage of those replying are shown in Table 1.
Table 1

Number of Letters Sent, Replies Received, and Percentage of those Replying in Survey of 356 Trade Associations in Metal Products Industry, by Type of Industry - 1952

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Number of Letters Sent</th>
<th>Replies Received</th>
<th>Percentage Replying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Metal Industries</td>
<td>42</td>
<td>20</td>
<td>47.62</td>
</tr>
<tr>
<td>Fabricated Metal Products (a)</td>
<td>79</td>
<td>26</td>
<td>32.91</td>
</tr>
<tr>
<td>Machinery (except Electrical)</td>
<td>105</td>
<td>43</td>
<td>40.95</td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>23</td>
<td>13</td>
<td>56.52</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>33</td>
<td>13</td>
<td>39.39</td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>18</td>
<td>10</td>
<td>55.56</td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>34</td>
<td>15</td>
<td>44.12</td>
</tr>
<tr>
<td>Unclassified</td>
<td>22</td>
<td>5</td>
<td>22.73</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>356</strong></td>
<td><strong>145</strong></td>
<td><strong>40.73</strong></td>
</tr>
</tbody>
</table>

(a) Except Ordnance, Machinery and Transportation Equipment.
(b) Includes Equipment and Supplies.
(c) Includes Photographic Equipment, Watches and Clocks.

Thus the largest percentage of replies received compared with number of letters sent is shown in the electrical machinery industry with Professional, Scientific, and Controlling Instruments following closely behind. The percentage distribution of letters sent and replies received as among the various classifications of the metal products industry is shown in Table 2.
Table 2

Number and percentage Distribution of Letters Sent and Replies Received from National Trade Associations in the Metal Products Industry by Type of Industry - 1952

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Letters Sent</th>
<th>Replies Received</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>No.</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Primary Metal Industries</td>
<td>42</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>11.80</td>
<td>13.79</td>
</tr>
<tr>
<td>Fabricated Metal Products (a)</td>
<td>79</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>22.19</td>
<td>17.93</td>
</tr>
<tr>
<td>Machinery (except electrical)</td>
<td>105</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>29.49</td>
<td>29.65</td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>23</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>6.46</td>
<td>8.97</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>33</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>9.27</td>
<td>8.97</td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>18</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>5.06</td>
<td>6.90</td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>34</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>9.55</td>
<td>10.34</td>
</tr>
<tr>
<td>Unclassified</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>6.18</td>
<td>3.45</td>
</tr>
<tr>
<td>Total</td>
<td>356</td>
<td>145</td>
</tr>
<tr>
<td></td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(a) Except Ordnance, Machinery and Transportation Equipment.
(b) Includes Equipment and Supplies.
(c) Includes Photographic Equipment, Watches and Clocks.

Possession of Formalized Codes

An analysis of the 145 replies received in the Trade Association survey revealed that 101, 69.66 per cent, of the organizations had no codes. Of the remaining number, 28 or 19.31 per cent had adopted formalized codes of their own, and 16 or 11.03 per cent operated under Trade Practice Rules promulgated by the Federal Trade Commission. An analysis of the data in Table 3 discloses that the associations in the
Table 3
Number and Percentage Distribution of Codes Possessed Reported in Replies of 145 Trade Associations in Metal Products Industry by Type of Industry

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Respondents Have</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own Code</td>
<td>T.P.R.</td>
<td>No Code</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Metal Industries</td>
<td>1</td>
<td>2</td>
<td>17</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Fabricated Metal Products (a)</td>
<td>2</td>
<td>2</td>
<td>21</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Machinery (except electrical)</td>
<td>9</td>
<td>1</td>
<td>33</td>
<td>43</td>
<td></td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>2</td>
<td>4</td>
<td>7</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>6</td>
<td>-</td>
<td>7</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>2</td>
<td>-</td>
<td>8</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>4</td>
<td>7</td>
<td>4</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Unclassified</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>16</td>
<td>101</td>
<td>145</td>
<td></td>
</tr>
</tbody>
</table>

Percentage Distribution

<table>
<thead>
<tr>
<th></th>
<th>Primary Metal Industries</th>
<th>Fabricated Metal Products (a)</th>
<th>Machinery (except electrical)</th>
<th>Electrical Machinery (b)</th>
<th>Transportation Equipment</th>
<th>Professional, Scientific and Controlling Instruments (c)</th>
<th>Miscellaneous Manufacturing</th>
<th>Unclassified</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5.00</td>
<td>11.54</td>
<td>20.93</td>
<td>15.38</td>
<td>46.15</td>
<td>20.00</td>
<td>26.67</td>
<td>20.00</td>
</tr>
<tr>
<td></td>
<td>10.00</td>
<td>7.69</td>
<td>2.33</td>
<td>30.77</td>
<td>0.00</td>
<td>0.00</td>
<td>46.66</td>
<td>0.00</td>
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<td></td>
<td>85.00</td>
<td>80.77</td>
<td>76.74</td>
<td>53.85</td>
<td>53.85</td>
<td>80.00</td>
<td>26.67</td>
<td>80.00</td>
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<td></td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

(a) Except Ordnance, Machinery and Transportation Equipment.
(b) Includes Equipment and Supplies.
(c) Includes Photographic Equipment, Watches and Clocks.
Machinery (except electrical) and Transportation Equipment industries lead in the adoption of their own codes. Associations in the Miscellaneous Manufacturing and Electrical Machinery (including equipment and supplies) had been most active in the development of Trade Practice Rules in cooperation with the Federal Trade Commission.

When the groups of companies having (1) their own codes; (2) FTC Trade Practice Rules; or (3) no codes were studied from the viewpoint of distribution among the various classification of industries in the Metal Trades, the information in Table 4 was disclosed.

**Reasons for Not Adopting a Formalized Code**

Since 69.66 per cent of the cooperating trade associations stated they had no code, the survey was particularly interested in the reasons for not adopting such a set of principles. Table 5 provides a summary of the major reasons offered by the 45 associations volunteering such information.

Most frequently it was stated that the association had little or no interest or belief in formalized codes. In one instance the association spokesman maintained that "we do not use or believe in codes of ethics in any of the groups with which we are connected." The representative of an association of manufacturers of engines and turbines reflected a more suspicious view when he stated:

The Institute as such does not have nor have they ever developed any codes of business practices or ethics and from the discussions...
Table 4
Number and Percentage Distribution of Codes Among Classifications of National Trade Associations in Metal Products Industry

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Respondents Have</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own Code</td>
<td>T.P.R.</td>
<td>No Code</td>
<td></td>
<td>Percentage Distribution</td>
</tr>
<tr>
<td>Primary Metal Industries</td>
<td>1</td>
<td>2</td>
<td>17</td>
<td></td>
<td>3.57</td>
</tr>
<tr>
<td>Fabricated Metal Products (a)</td>
<td>3</td>
<td>2</td>
<td>21</td>
<td></td>
<td>10.72</td>
</tr>
<tr>
<td>Machinery (except Electrical)</td>
<td>9</td>
<td>1</td>
<td>33</td>
<td></td>
<td>32.14</td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>2</td>
<td>4</td>
<td>7</td>
<td></td>
<td>7.14</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>6</td>
<td>-</td>
<td>7</td>
<td></td>
<td>21.43</td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>2</td>
<td>-</td>
<td>8</td>
<td></td>
<td>7.14</td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>4</td>
<td>7</td>
<td>4</td>
<td></td>
<td>14.29</td>
</tr>
<tr>
<td>Unclassified</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td></td>
<td>3.57</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>16</td>
<td>101</td>
<td></td>
<td>100.00</td>
</tr>
</tbody>
</table>

(a) Except Ordnance, Machinery and Transportation Equipment.
(b) Includes Equipment Supplies.
(c) Includes Photographic Equipment, Watches and Clocks.
TABLE 5
Metal Products Industries: Number and Percentage Distribution of National Trade Associations
Stating Reasons for Having No Codes, by Type of Reason Stated,
by Type of Industry, United States, 1952

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Only Technical Specifications and Standards of Quality</th>
<th>No Member of Other Organization or Belief (Implies Use in Codes)</th>
<th>Primarily Not in Area of Commercial or Related Activities</th>
<th>Operated Under Unwritten Code or Internal Code</th>
<th>Loosely Knit and Small Organization</th>
<th>Relatively Inactive Disbanded Miscellaneous</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Metal Industries</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Fabricated Metal Products(a)</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Machinery (Except Electrical)</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>-</td>
<td>2</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Unclassified</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>10</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>45</td>
</tr>
</tbody>
</table>

Number

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Metal Industries</td>
<td>16.67</td>
</tr>
<tr>
<td>Fabricated Metal Products(a)</td>
<td>27.27</td>
</tr>
<tr>
<td>Machinery (Except Electrical)</td>
<td>8.33</td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>-</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>-</td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>50.00</td>
</tr>
<tr>
<td>Unclassified</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>13.33</td>
</tr>
</tbody>
</table>

Percentage Distribution

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Metal Industries</td>
<td>18.67</td>
</tr>
<tr>
<td>Fabricated Metal Products(a)</td>
<td>27.27</td>
</tr>
<tr>
<td>Machinery (Except Electrical)</td>
<td>6.67</td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>-</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>-</td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>50.00</td>
</tr>
<tr>
<td>Unclassified</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>13.33</td>
</tr>
</tbody>
</table>

(a) Except Ordnance, Machinery and Transportation Equipment.
(b) Includes Equipment and Supplies.
(c) Includes Photographic Equipment; Watches and Clocks.
by members, of your letter, I question very much if any company would feel free to give out such information which they consider to be confidential within their own company.

Typical of the reasons given by those associations who found an unwritten code to be a suitable substitute was the following: "I think perhaps, that we have a strong unwritten code which presents the friendliest of relations after hours and the strongest of competition when on a job."

Of course, some of the trade associations are very small organizations so far as membership and administrative personnel is concerned. This factor was mentioned by five associations as the main reason for not having a code. To illustrate the thinking on this point the following two opinions are presented:

Our office, which employs only two people, is run on such a small scale from the standpoint of management that we feel we can operate on a more flexible basis than that which would be set forth in a code.

I think our people get along very well without any published guide-stick. We are a small organization and the members know one another rather well.

One of the associations had not adopted a code "largely because our members are essentially noncompetitive." Another admitted that "a Fair Trade Practice Code has been discussed on a number of occasions but never materialized."

In a number of instances associations had codes in the pre-NRA days; then, for one reason or another, they
became inactive. An example of this situation was described as follows:

This organization at one time published a Code of Ethics. It was used for some period of years with rather satisfactory results. With the coming of NRA and changes made in this and related matters at that time a new Code was prepared, but it was never completed or made effective for several good and sufficient reasons.

In another case an older code was abandoned when it fell into disrepute. The representative of this organization expressed it this way:

... we had one in an older association that became involved in a government proceeding and the code, or portions of it, was alleged to be part of a plan to accomplish illegal objectives. This fact, plus questioning definite value of codes, has resulted in this association not having adopted any code.

Sometimes, apparently a code still exists but is seldom used. For example, an association of metal working machinery manufacturers stated that "the code prepared by the Chamber of Commerce of the United States back in 1923 or 1924 received the endorsement of (our) association at that time and is still referred to by those whose history goes back far enough in the industry to be acquainted with it." In another case, a group of laboratory, scientific and engineering instrument manufacturers reviewed an older code recently, only to find there was no interest in it. Their spokesman explained it this way:

Many years ago the Association adopted the code of ethics for general business use promulgated by the United States Chamber of Commerce. Since that time it has quietly gathered dust on
the shelf and was completely forgotten. I started working for this Association five years ago and up until last year never heard of it until one of our members suggested that it be revived. We took it off the shelf, dusted it up, discussed it at one of the Executive Committee's meetings and found there was no interest in it whatsoever.

It must be pointed out that in each of these cases the associations had adopted a "canned" code. The Chamber of Commerce, Rotary, and other similar "model" codes are fine --however, they should be used as examples to be adapted and modified to the particular association's own needs. Other factors may be responsible for the inactive status of the codes in these instances.

There was little evidence to show that the associations not possessing codes at the present time were contemplating their adoption.

Receipt of Trade Association Codes

All of the associations having their own codes cooperated with the survey in furnishing a copy for analysis. However, only 10 of the 16 organizations operating under Federal Trade Commission Trade Practice Rules made them available. Table 6 provides a breakdown of the codes received by type of industry.

Analysis of Trade Association Codes

The content of the 28 Codes of Ethics and the 10 sets of Trade Practice Rules were analyzed to determine the degree of emphasis placed upon the types of business relations
Table 6
Number and Percentage Distribution of Codes and Trade Practice Rules Received from National Trade Associations in the Metal Products Industry, by Type of Industry

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Own Code No.</th>
<th>FTC - TP Rules No.</th>
<th>Own Code %</th>
<th>FTC - TP Rules %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Metal Industries</td>
<td>1</td>
<td>1</td>
<td>3.57</td>
<td>10.00</td>
</tr>
<tr>
<td>Fabricated Metal Products (a)</td>
<td>3</td>
<td>2</td>
<td>10.72</td>
<td>20.00</td>
</tr>
<tr>
<td>Machinery (except Electrical)</td>
<td>9</td>
<td></td>
<td>32.14</td>
<td></td>
</tr>
<tr>
<td>Electrical Machinery (b)</td>
<td>2</td>
<td>2</td>
<td>7.14</td>
<td>20.00</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>6</td>
<td></td>
<td>21.43</td>
<td></td>
</tr>
<tr>
<td>Professional, Scientific and Controlling Instruments (c)</td>
<td>2</td>
<td></td>
<td>7.14</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Manufacturing</td>
<td>4</td>
<td>5</td>
<td>14.29</td>
<td>50.00</td>
</tr>
<tr>
<td>Unclassified</td>
<td>1</td>
<td></td>
<td>3.57</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>10</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

(a) Except Ordnance, Machinery and Transportation Equipment.
(b) Includes Equipment and Supplies.
(c) Includes Photographic Equipment, Watches and Clocks.

defined in Chapter I. The number of times each type of relations was mentioned was enumerated. Table 7 provides a summary of this study. It is shown that the 10 sets of trade practice rules lead the associations 28 "own" codes in references to competitor, customer, dealer, public, and enforcement relations. The associations' "own" codes, on the other hand, were found to contain a larger number of rules of conduct pertaining to owner, supplier, labor,
Table 7
Metal Products Industries: Analysis of Content of 28 Codes of Ethics and of 10 Fair Trade Practices Rules, National Trade Associations, by Major Types of Business Relations, 1952
(Total number of times mentioned)

<table>
<thead>
<tr>
<th>Type of Business Relation</th>
<th>Number of Times Mentioned</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own Code</td>
<td>F.T.C. Codes</td>
</tr>
<tr>
<td>Competitor Relations</td>
<td>156</td>
<td>274</td>
</tr>
<tr>
<td>Customer Relations</td>
<td>125</td>
<td>179</td>
</tr>
<tr>
<td>Dealer Relations</td>
<td>84</td>
<td>215</td>
</tr>
<tr>
<td>Public Relations</td>
<td>92</td>
<td>169</td>
</tr>
<tr>
<td>Owner Relations</td>
<td>48</td>
<td>4</td>
</tr>
<tr>
<td>Supplier Relations</td>
<td>33</td>
<td>15</td>
</tr>
<tr>
<td>Labor Relations</td>
<td>29</td>
<td>9</td>
</tr>
<tr>
<td>Community Relations</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Enforcement Relations</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Government Relations</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Financial Relations</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>602</td>
<td>874</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Code</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor Relations</td>
<td>25.91</td>
<td>31.35</td>
</tr>
<tr>
<td>Customer Relations</td>
<td>20.76</td>
<td>20.48</td>
</tr>
<tr>
<td>Dealer Relations</td>
<td>13.95</td>
<td>24.60</td>
</tr>
<tr>
<td>Public Relations</td>
<td>15.28</td>
<td>19.34</td>
</tr>
<tr>
<td>Owner Relations</td>
<td>7.98</td>
<td>4.46</td>
</tr>
<tr>
<td>Supplier Relations</td>
<td>5.48</td>
<td>1.72</td>
</tr>
<tr>
<td>Labor Relations</td>
<td>4.82</td>
<td>1.03</td>
</tr>
<tr>
<td>Community Relations</td>
<td>2.66</td>
<td>.00</td>
</tr>
<tr>
<td>Enforcement Relations</td>
<td>.67</td>
<td>.92</td>
</tr>
<tr>
<td>Government Relations</td>
<td>1.33</td>
<td>.11</td>
</tr>
<tr>
<td>Financial Relations</td>
<td>1.16</td>
<td>.00</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>
community, governmental, and financial relations. As a general rule, the trade practice rules were found to be much more detailed in form than the formalized codes. Nevertheless, with both groups, competitor relations received the most emphasis. Secondary emphasis, however, was accorded customer relations in "own codes" while the Trade Practice Rules placed dealer relations immediately after competitor relations. Adding public relations, these four--competitor, dealer, customer and public--accounted for 75.90 per cent of the content of Trade Association "own" codes and 95.77 per cent of the 10 sets of Trade Practice Rules. Thus, while the codes are less detailed than the trade practice rules, they are broader in scope so far as the treatment of the various types of business relations are concerned. It was interesting to note that while financial and community relations were not mentioned at all and government relations was mentioned only once in the trade practice rules, these types of relations were mentioned a number of times in the associations' own codes. After a description of the returns from several association memberships, emphasis upon the different types of business relations at the association and company levels will be compared.

**Competitor Relations**

As indicated above, competitor relations was mentioned most frequently in both the Trade Associations' own
codes and the industry trade practice rules. The importance of this type of business relations was pointed out by one writer in the field of public relations as follows:

As one slip may upset a thousand routine acts of good faith, so one bad company reflects on the good ones. Therefore, no one may intelligently rejoice at the misfortune or mismanagement of a rival in business. This is the fact which makes good competitor relations vital for the welfare of all who have the same stake.1

In dealing with competitor relations, the trade associations' own codes placed, by far, the greatest emphasis upon interference with competitors. However, the trade practice rules in this area placed misrepresentation of product, prohibited discrimination, and false or deceptive selling methods ahead of rules pertaining to interference with competitors. Least attention, in both cases, was given to provisions to assure a "competent, helpful, and honest source of supply." Table 50 in Appendix B contains a full breakdown of the rules of conduct dealing with competitor relations.

Customer Relations

Second in number of times mentioned was customer relations. Later it will be seen that the customer is often accorded primary consideration at the company level. It has been maintained that "the most important people in the world

1Herbert M. Baus, Public Relations At Work (New York: Harper and Brothers, 1948), p. 84.
of business are customers and prospective customers. . . . Perhaps the chief cause of business failure is neglecting to study one's customers."\(^2\) Of course the importance of the consumer in retailing is well known. Jack I. Straus, President of R. H. Macy and Co., Inc., in an article entitled "The Responsibilities of the Businessman to the Consumer," maintained that "the customer is all-important. Her interests come before anything else. Everything you do, everything you sell, your profits, your future, depend upon her goodwill."\(^3\)

Rules of conduct concerning contracts and guarantees received the most emphasis in this area in the associations' own codes. These codes gave least attention to rules relating to coercion in trade and interference with competitors. The associations operating under trade practice rules placed the most emphasis upon rules dealing with (1) misrepresentation of product and (2) false or deceptive selling methods. No rules whatever were included relating to (1) the maintenance of high quality standards and (2) consideration of the public. With the associations' own codes, these rules were mentioned 11 and 12 times respectively. The rules


\(^3\)Harwood F. Merrill, The Responsibilities of Business Leadership (Cambridge, Massachusetts: Harvard University Press, 1949), p. 44.
of conduct in customer relations are summarized in Table 51 of Appendix B.

Dealer Relations

Dealer relations is a matter of two things: first, relations with the dealer to win his good will, motivate him to continue handling the product, stimulate him to pass on goodwill, and help him to sell the company's products; second, education of the dealer supplemented with public relations aids so his public relations will be good on behalf of both himself and the company whose products he handles.

Following competitor and customer relations, dealer relations was mentioned most frequently in the association codes and industry trade practice rules. Contracts and guarantees and the maintenance of a competent, helpful, and honest source of supply were incorporated into the rules of conduct of the associations' own codes most frequently. However, maintenance of competent, helpful, and honest source of supply was treated in only one of the sets of trade practice rules. The trade practice rules placed considerable emphasis upon misrepresentation of product and false or deceptive selling methods, while consideration of the customer was neglected entirely. Yet there is an important relationship here—which has been described by the Director of the Distribution Division, Public Relations, of the Babson Institute of Business Administration as follows: "Consumers are often

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4 Baus, op. cit., p. 69.
motivated to buy a product through confidence in the local dealer. A favorable attitude by the local dealer is therefore essential in building good consumer relations for a manufacturer."5 Numerical and percentage distribution of the various types of dealer relations appear in Table 52 of Appendix B.

Public Relations

Individual trade association codes and the sets of trade practice rules rated public relations third and fourth respectively in number of times mentioned. Its importance is well recognized. One executive has stated that "No company of any importance whatsoever and no industry group at all can do without sound public relations activities based upon fundamentally sound policies."6 Table 53 in Appendix B summarizes the rules of conduct pertaining to public relations.

A number of interesting differences between the association codes and the trade practice rules are noted. While the association codes listed rules of conduct regarding maintenance of a competent, helpful, and honest source of supply and developing confidence as appearing first and third in frequency, they were totally neglected in the trade


practice rules. Rules relating to misrepresentation of product were second in order of frequency in the groups' "own" codes while this phase was the outstanding type of rule in the trade practice rules. The secondary position in the FTC rules was accorded to rules of conduct dealing with false or deceptive selling methods.

Owner Relations

Table 54 in Appendix B shows that the 10 sets of trade practice rules contained only four references to owner relations, while the 28 association codes provided 48 rules of conduct in this area. The latter placed greatest emphasis upon rules designed to further the maintenance of high quality standards. Rules relating to developing confidence and promotion of owner interests followed. The 4 rules of conduct in the FTC rules were equally divided between contracts and guarantees and developing confidence.

Apparently the management representatives cooperating in the formulation of trade practice rules failed to accord much importance to owner relations. Yet, this type of business relations is clearly related to ethical conduct in business since the day-to-day activities of a firm's personnel reflect, in greater or lesser degree, the basic ideals of the owners. A writer in the field of business ethics has maintained that "If ethical standards gain strength in the business world, even the stockholder will have to realize
that his votes and his influence must be exercised to a certain extent as if he were a trustee for broader interests than his own."7 In making a practical approach to the problem, it is generally agreed that "stockholder relations is a top management function, irrespective of the nature of the program."8 The interrelationship of management and stockholder relations has been very aptly pointed out by Pearson Hunt, as follows: "Management's policies in the stockholder relations area should be set to harmonize its own interests with those of the stockholders for mutual benefit."9

Supplier Relations

Consideration given supplier relations in the sets of trade practice rules was noticeably less than with the associations' "own" codes (as shown in Table 55 in Appendix B). When the trade practice rules did refer to supplier relations, they dealt primarily with contracts and guarantees and prohibited discriminations. "Consideration of supplier" given the most emphasis in association codes was neglected entirely


in the trade practice rules. Contracts and guarantees, already mentioned as receiving the major emphasis in the trade practice rules, ranked second in the association codes.

There are many ways in which a company may develop a reputation for itself. That supplier relations may be one of these ways was pointed out by one businessman when he asserted that "a firm becomes known as a decent, honorable organization or as a chiseler rather quickly on the basis of its dealings with suppliers." 10

Labor (Employee) Relations

With the steady advance in the labor movement in practically all industries in recent years, employee relations has demanded more and more of management's attention. Yet the responsibility of a company to its labor force has been recognized for some time. In 1925, Webster Robinson, one of the earlier writers in the management field, pointed out that "just as a company renders a definite type of service to its customers in order to build up reputation and goodwill, so should it render service to its members, who play an even more important part in its success." 11


management's responsibility in the area was characterized as follows:

Modern management exhibits a sense of responsibility to its employees not only to prevent or anticipate the demands of labor unions but for the simple, obvious, and honest reason that a satisfied local group of employees is at least as much a capital asset as a modern plant or a vital piece of machinery.¹²

To illustrate an important by-product of good employee relations, Cyrus Ching has been quoted as saying that "if your employees believe in you . . . your reputation begins to rise and rise in the minds of the public, not because of a conscious effort on your part to bring it about, but through the influence of your employees."¹³

As with some of the other types of business relations already noted, the two types of formalized ethical codes differed considerably in their treatment of labor relations. The associations' "own" codes place the most emphasis on rules of conduct pertaining to consideration of employees and developing confidence, while the trade practice rules mentioned the former just twice and completely ignore the latter. The trade practice rules centered their attention upon rules pertaining to prohibited brokerage or commission. Other


¹³ Frank Lang, "Research-Backbone of Sound Public Relations," *The Journal of Marketing* (XVI, No. 2 (October, 1951), 194.
rules of conduct dealing with labor relations are shown in Table 56 of Appendix B.

Community Relations

It was surprising to find that the 10 sets of trade practice rules contain no specific reference whatever to community relations. Among the 28 association codes, however, 16 rules of conduct referring to community relations were noted. Ten of these related to the promotion of good citizenship and development of community, while the other six were divided equally between developing confidence and observance of legal requirements. Table 57 in Appendix B summarizes this data.

During recent years it has become increasingly apparent that community relations is as important a function of line management as the other types of business relations already mentioned. As Jackson Martindell has expressed it, "just as 'every market is a local market' so every officer of a corporation is a local citizen of some community. His active participation in community endeavors is the hallmark of the public spirited business leader."14 From his own experience as an industrial leader, William B. Given Jr.,

as president of the American Brake Shoe Company, characterized the company's place in the community as follows:

It is not enough to pay our taxes and furnish work for some of our fellow citizens. To be good neighbors our company must assume local responsibilities by taking an interest in local enterprises and supporting worthy local projects—in other words, meet community obligations just as a respectable family meets them. If we do this, in the right spirit, we will become liked and respected as neighbors and a source of pride to the communities where we are located.15

Indeed the problem of community relations is not a simple one. Just a few years ago Professor John W. Welcker of Harvard spent a year doing research in the area of industrial community relations. One of his conclusions was that "the pattern of community relations is an exceedingly intricate one, involving public relations, management-labor relations, and human relations, all of which directly related to management's policies and day-to-day actions."16

Enforcement Relations

Formal provisions for the enforcement of ethical concepts were more in evidence with the trade practice rules than in the case of the associations' own codes. Arbitration provisions were given primary attention in both instances, with


enforcement of code violations second. It must be pointed out that there were only 12 rules of conduct in all pertaining to enforcement in both the 28 association codes and the 10 sets of trade practice rules. The data is summarized in Table 58, Appendix B.

In the questionnaire designed for use in the survey at the company level, a number of questions were included to ascertain the steps taken by the respective trade association members in the enforcement of their ethical codes. The answers to these inquiries disclosed an even greater absence of enforcement provisions.

**Governmental Relations**

The writers of the Constitution did not say that government is government and business is business. They had what seems today a refreshing awareness of the interdependence of the two.17

The interrelationship between government and business has occupied the attention of many students and writers during recent years. It was particularly noted during war periods and other times of national emergency. It was therefore rather surprising to find that the 10 sets of trade practice rules only contained a single rule of conduct pertaining directly to this type of business relations—the observation of legal requirements. There were five

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references to this particular rule in the trade associations' "own" codes in addition to single references to rules relating to (1) the promotion of reasonable laws, (2) information concerning laws, and (3) behavior of such a type that would make legislation unnecessary. Over twenty years ago Dr. Vanderveer Custis, then Associate Professor of Economics at Northwestern University, made an interesting statement regarding the last of these rules. Because it is so pertinent, his remarks are quoted below at some length.

Practically speaking, both governmental regulations and business ethics are necessary under modern business conditions. Theoretically, governmental regulation alone might suffice; but it would require intelligence, wisdom, power, and devotion to the public welfare, on the part of those in governmental positions, far beyond anything that is reasonably attainable. . . . Theoretically, business ethics alone might suffice, but satisfactory standards of a sufficiently comprehensive character do not exist. . . . While both governmental regulation and business ethics are necessary, the proportions in which they may be combined are not definitely fixed. Obviously, the higher the ideals of businessmen, and the better these ideals are observed, the less is the need for governmental regulation.18

Table 59 of Appendix B provides a summary of the data on governmental relations.

Financial Relations

Of all the types of business relations, there were the fewest rules of conduct specifically relating to the financial area. Table 60 of Appendix B shows that the trade practice rules made no reference to financial problems, while the association codes contained seven rules of conduct distributed among developing confidence, consideration of capital, and waste in capital.

In addition to capital considerations, credit has played a role of ever-increasing importance in business in recent years. Nearly 30 years ago this statement relating credit to ethical standards was made, which is just as timely today: "Modern business is built on credit. It is carried on by borrowing, by the exchange of promises to pay in the future. The term itself implies mutual trust. The extent to which credit is used is a witness to the standard of honesty that has grown up in the business world." 19 A more recent reference to the unsecured, unwritten promise to pay was as follows: "Only a business system and a population disciplined to and characterized by commercial probity could make such predominant use of that form of credit which above all merits the slogan 'Credit: Man's Confidence in Man.'" 20

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It is quite likely that business codes formulated in the future will give increasing attention to credit problems as well as other types of financial relations.

**Comparison With Company Codes**

From the 28 company codes received, that of the Gray Iron Founders Society, Inc. (one of the trade associations selected for further study), was found to be one of the most complete. It will be compared with codes at the company level in a later chapter. This code is reproduced in full in Appendix D.

Trade Practice Rules promulgated by The Radio-Electronics-Television Manufacturers Association appear in Appendix E. Their form and content will be compared with (a) member company codes and (b) the GIF code at a later point in this study.
CHAPTER VI

SURVEY OF 41 LEADING CORPORATIONS

Introduction

Before initiating a survey of selected trade association memberships in the metal products industry, questionnaires* were submitted to 41 leading corporations in the United States for completion and comment. Information received was helpful in making minor procedural revisions in the succeeding investigation at the company level. Although technically not a part of the basic study, the returns from this group were found to be most interesting. Thus, they are summarized at this point.

Of the 41 firms contacted, 25 or 62.49 per cent replied. Nearly half (12 or 48 per cent) of those replying completed and returned the questionnaire. As would be expected, these companies had been in operation for a considerable number of years—having attained positions of leadership in their respective fields of manufacturing, transportation, and public service. All except one of the 12 companies furnishing such information had been in business for over twenty years. Table 8 gives the breakdown of number of years in operation.

*Reproductions of the questionnaire and covering letter used in the pilot study are shown in Appendix C.
TABLE 8

<table>
<thead>
<tr>
<th>Number of Years in Operation</th>
<th>Number of Companies</th>
<th>Percentage of Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11 - 20</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>21 - 30</td>
<td>3</td>
<td>25.00</td>
</tr>
<tr>
<td>31 - 40</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>41 - 50</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>51 - 60</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>61 - 70</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>71 - 80</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>81 - 90</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>100.00</td>
</tr>
</tbody>
</table>

An indication of the size of these companies is given in Table 9 where the number of employees is presented. The companies were asked to list the average number of employees on the payroll during the preceding twelve months.

TABLE 9

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 5000</td>
<td>3</td>
<td>25.00</td>
</tr>
<tr>
<td>10,001-15,000</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>15,001-20,000</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>40,001-45,000</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>55,001-60,000</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>65,001-70,000</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>225,000</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>100.00</td>
</tr>
</tbody>
</table>
**Possession of Formal Code**

A third of the companies submitting questionnaire data stated they had adopted a formal code or other statement of policy. The earliest was written in 1929, one in 1934, and the latest in 1942. The fourth company did not indicate an adoption date. Only one of the companies sent along a copy of their code. This document, adopted in 1952, took the form of a statement of the management philosophy of the company as set forth in four basic goals, amplified by 17 specific objectives aimed at achieving these basic goals. Primary emphasis was given to internal managerial organization, i.e., such problems as long-range planning, reducing policies and procedures to writing, and continual appraisal of results. The types of business relations mentioned, together with the frequency of their appearance, are shown in Table 10. It is apparent that this statement of policy

**Table 10**

Number and Percentage Distribution of Types of Business Relations Mentioned in Code of Leading American Corporation

<table>
<thead>
<tr>
<th>Type of Business Relation</th>
<th>Number of Times Mentioned</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>Competitor</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>Supplier</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>Employee</td>
<td>5</td>
<td>17.86</td>
</tr>
<tr>
<td>Financial</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>Owner</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>Community</td>
<td>2</td>
<td>7.14</td>
</tr>
<tr>
<td>Public</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>Management</td>
<td>15</td>
<td>53.58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
was, for the most part, designed for the guidance of upper
management levels in the routine operation of the concern.
Little emphasis was given to relationships with "outside"
groups.

Eight, or two-thirds, of the companies stated that
they did not possess a formal code or statement of policy.
All but one of them stated their reason for not having formu­
lated such a document. In general, these companies had not
considered it necessary to adopt a formal code. The thinking
behind this "lack of need" viewpoint differed from company to
compny. The major categories are represented by the reasons
given by three of the companies:

We believe the sum of the innumerable transac­
tions of a business reflect and record its "code
of ethics" more clearly and effectively than any
studied phraseology.

We operate informally. Everyone in the organiza­
tion knows who is responsible in a given policy
area and can ascertain very quickly existing
policy. . . . In a dynamic company policies are
modified and amended. sometimes often and usually
quickly. Written codes to be useful must be kept
current and even then interpretation becomes
difficult as the "guard house lawyers" go to work.

U. S. Government is our principle customer. With
government auditors and government inspectors
permanently stationed in your plants, your every
act is an open book and must of necessity be
ethical.

A number of companies not completing questionnaires
stated, by letter, their reason for not having adopted a
formalized code or other statement of policy. Although they
followed the general pattern set forth above, two of them
merit individual mention. After disclaiming the need for such a code the representative of one of the very large and very old American corporations went on to give his firm's philosophy as follows:

In all business relationships, the purpose of the management is to be fair to ourselves and to those with whom we deal. We know that if we are not fair, the Company will be the loser. This guiding principle of fairness has been handed down to us generation by generation, from the founding of the Company 152 years ago. It has been particularized for specific problems in volumes of policy decisions. But we feel that to try to compile a formal code defining fair conduct in all the complex and far-flung relationships of a business as large and diversified as ours, would result only in too many inadequate words—doomed to fail in their ultimate objective since even the most skillfully-chosen words are subject to interpretation by the individuals charged with management responsibility. I suppose you could say that our code, like the British Constitution, is written in the hearts and minds of the people who constitute our management, and who have been steeped in the company's traditions.

An interesting variation of this viewpoint was expressed by the second concern. This company, also having passed the century mark in number of years of continuous operation, gave its reason as follows:

We believe that we have ethics as high as any in the world, and that during the past 117 years we have conducted our business in as consistently worthy a manner as any management group. Yet we must confess that we have no formal policy statement or formal management code of ethics which has been reduced to paper. I think the answer is that we employ youngsters of college age, train them and from them develop our management group. They grow up with (name of company), they absorb standards and ethics from their superiors who in
turn absorb them from those who went before them. Unless a man is perverse or stupid he will develop an attitude which reflects the ethics or moral code of (name of company) far better in this way than anyone could from studying a formal document.

As will be seen later with the survey of trade association memberships, a sizable number of companies take this position, i.e., that an informal ethical code which somehow is "understood" by company personnel is to be preferred to a formalized statement designed to govern ethical conduct.

**Operation under Recognized "Informal" Code**

Seven of the 12 companies submitting detailed information answered the inquiry concerning operation under a recognized informal code. Of the seven, 5 or 71.43 percent possessed such a code. One of the companies considered The Golden Rule as the embodiment of its informal code. The other four companies claimed that their codes were incorporated in their statements of policy, set of objectives, general instructions, and standard procedure instructions respectively. In one instance individual responsibility for uniform interpretation of policy was emphasized when their operation was described in these terms: "The person responsible for a given policy area is contacted by anyone in the organization requiring a statement of policy and gets, what is more important, uniform interpretation." This company's representative did not mention what happens in the absence of such "key" officials or when changes in personnel take place.
Use Made of Trade Association Code(s)

The leading American Corporations surveyed were asked what use they made of formal codes of ethics possessed by any of the various trade associations to which they belonged. Only 3 of the 12 companies returning questionnaires failed to answer this question. The answers indicated that these well-known American Corporations made limited use of their trade association codes. Only one of the companies stated that it regularly incorporates the various resolutions and recommendations of their trade association code into its own written policies and procedures. Three of the companies claimed to follow the association codes where they applied to their individual businesses. Three, or a third of the concerns answering the query, indicated that they made no use whatever of their trade association codes. Perhaps even more surprising was the reply given by one of these leading corporations: "Have never heard of a trade association code."

Codes and the Formulation of Company Policy

One of the major objectives in the Management Code Survey was to determine the relationship between trade association and company codes and the formulation of company policy. Thus the companies surveyed were asked to indicate specifically if their codes were used in this way. Table 11 shows that, in each case, those companies providing an
answer to this specific inquiry split evenly with their positive and negative responses.

Table 11

Number and Percentage Distribution of 12 Leading Corporations Using Trade Association and Company Codes in the Formulation of Company Policy

<table>
<thead>
<tr>
<th>Type of Code and Response</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade Association</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use Code:</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>Do Not Use Code:</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>No Response:</td>
<td>8</td>
<td>66.66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12</td>
<td>100.00</td>
</tr>
</tbody>
</table>

| **Company**               |                     |                         |
| Use Code:                 | 3                   | 25.00                   |
| Do Not Use Code:          | 3                   | 25.00                   |
| No Response:              | 6                   | 50.00                   |
| **Total**                 | 12                  | 100.00                  |

Further, the companies were asked to indicate the major ways in which their codes are related to the formulation of company policy. Five of the concerns supplying questionnaire data chose to list their method of relating code provisions to company policy. Where a company considered the statement of its major objectives as its code, its representative pointed out that "every policy considered is checked against the objectives and is conscientiously kept constant with one or more of them." Another firm sought to accomplish this integration by incorporating their code into company manuals. This company's representative pointed out
that these manuals not only record policies but also the necessary instructions and procedures to give effect to their objectives. A third concern's representative merely stated that their code is related to the formulation of company policy by always keeping the Golden Rule before the company. The other two organizations claimed that their policies are closely related to their codes but failed to give further information as to methods employed.

In addition to determining the major ways in which codes have been related to the formulation of company policy, the survey sought to find how companies assure that such a relation does exist. Four of the organizations completing the questionnaire offered this information. In one instance specialists are assigned to various administrative and technical fields to relate policies to the necessary written procedures. Two of the other companies used their codes as the foundation for the development of company policy. The fourth company sought to obtain such assurance by careful analysis of performance at lower levels by those higher in the chain of command.

Value of Codes in Business Relations

As a further means of investigating companies' use of ethical codes, the survey sought to learn that specific types of business relations were particularly benefited by such codes. Two of the leading corporations volunteered this
Information so far as their trade association codes were concerned. Both of the companies listed customer, competitor and governmental relations as of primary importance. In addition, public, community, dealer, and financial relations were given single mention. When asked to state the reasons for the value of codes with these types of business relation, one of the responding companies considered that by publicizing such a standard, responsibility to its customers would be improved; and as a result, its business would be enhanced in the future. The second company stated that the use of a code "allows actions of all concerned to follow principles instead of expediency." From the standpoint of basic management principles, this statement is highly significant.

Action based upon expediency often involves sacrifice of fundamental principles which is, in effect, intellectual dishonesty.

Four of the leading corporations indicated the type of business relations in which their company codes were of greatest value. As in the case of the trade association codes, all of the companies listed customer, governmental and competitor relations. A greater number of types of business relations were mentioned with regard to the use of company codes. Listed below is the complete list of types of business relations mentioned with the number of companies mentioning each noted in parenthesis.
As with their trade association code, one of the companies significantly pointed out that their company code enabled their personnel to follow principles instead of expediency. Two of the other companies claimed that their own codes assisted in the handling of customers and employees. The fourth company stated that "the main value is that people both inside and outside the company know how we think and what we stand for . . . ." This is an important point for, as will be shown later, the value of ethical codes lies in both its internal and external influences.

A number of the companies found it difficult to rate the importance of one type of business relations above or below another. The representative of one of the organizations made a rather interesting analogy to illustrate the point when he spoke of this dilemma as "a three-legged stool -- each leg is as important as the other in maintaining a proper balance of the whole structure."

Factors Influencing Adoption of a Formal Code

As indicated in an earlier section of this chapter four of the companies supplying questionnaire data stated that they had adopted a formal code or other statement of policy. Three of these companies also mentioned the major

<table>
<thead>
<tr>
<th>Relation Type</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Relations</td>
<td>4</td>
</tr>
<tr>
<td>Governmental Relations</td>
<td>4</td>
</tr>
<tr>
<td>Competitor Relations</td>
<td>4</td>
</tr>
<tr>
<td>Employee Relations</td>
<td>3</td>
</tr>
<tr>
<td>Dealer Relations</td>
<td>3</td>
</tr>
<tr>
<td>Financial Relations</td>
<td>3</td>
</tr>
<tr>
<td>Public Relations</td>
<td>3</td>
</tr>
<tr>
<td>Community Relations</td>
<td>2</td>
</tr>
<tr>
<td>Owner Relations</td>
<td>2</td>
</tr>
<tr>
<td>Supplier Relations</td>
<td>2</td>
</tr>
</tbody>
</table>
factor influencing their adoption. In one instance, the formalization of the company's objectives came about as the result of a new president taking over the leadership of the concern who "wanted to let the people within the company know his philosophy of management." A second company decided that when its business had grown and became diversified, it was necessary to have its principles in writing. In addition, this company listed as a second factor its genuine desire to "live right." The third organization emphasized the uniformity of policies resulting from such a formalization when their representative made the following statement: "To become a leader in industry and to attain such objectives as safety, dependability, and economy of operations, it is necessary to have those who work for the company follow uniform specific policies." All of these factors deal with the internal advantages to be derived from putting a code into writing. In the answers of the trade association memberships to this question, to be reviewed presently, this will not always be found to be true.

Provisions for Enforcement of Codes

Formalized ethical codes or other statements of policy may be presented in very impressive forms. However, whether they be designed primarily for internal use or to deal with "outside" relations, they seldom, if ever, enforce themselves. Therefore, it was considered very important to
attempt to ascertain the degree to which provisions have been made for the enforcement of both trade association and company codes. The companies were first asked to specifically state whether they had definite provisions for enforcement. Three of the companies elected to answer this inquiry. The answers given appear in Table 12.

### Table 12

Number and Percentage Distribution of 12 Leading American Corporations Answering Inquiry Concerning Possession of Provisions for Enforcement of Ethical Codes

<table>
<thead>
<tr>
<th>Types of Code and Response</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade Association</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Provision</td>
<td>1</td>
<td>8.33</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>2</td>
<td>16.67</td>
</tr>
<tr>
<td>No Response</td>
<td>9</td>
<td>75.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Company**

| Have Provision             | 2                   | 16.67                   |
| Do Not Have Provision      | 1                   | 8.33                    |
| No Response                | 9                   | 75.00                   |
| **Total**                  | 12                  | 100.00                  |

Four of the respondent companies reported their method of checking compliance with the policies which, in turn, are based upon their formalized codes. In one instance, the organization conducted periodic evaluations and audits and submit reports (with non-compliance noted therein) to responsible management. In another case, the checking of compliance was considered to be the specific responsibility
of line management. A third company relied upon a comprehensive system of performance analysis of all operations of the company. The fourth company maintained that although their policies are under constant review, the motive is not so much a question of checking compliance as it is one of modification and further refinement, since "it is understood we live up to the policies we adopt." In reality, then, this particular company actually has no method of checking compliance which could be considered effective.

In furthering the question for information concerning steps taken to enforce code provisions, the questionnaire was designed to discover whether the companies had any formal provisions for corrective action when code violations are discovered. Three of the 12 companies returning data stated that they did have such provisions. Two of the companies maintained that since definite lines of authority and responsibility are established—with written rules and regulations for guidance—corrective action, when necessary, becomes routine. In addition, one of the companies pointed out that in their organization "all key employees sign personal acknowledgement of reading policy to 'adhere in spirit and mind to.'" The third concern maintained that when corrective action is necessary they go through the same process in making the change as they do in setting up the original policy, i.e., concurrence of key officials and approval of the one authorized to effect such policy.
Method of Publication of Formalized Codes

In addition to the form taken by the formalized codes or statements of policy, the survey sought to find out just how they are made known to the various interested groups—customers, employees, etc. Four of the businesses returning questionnaires volunteered this information. Two of these companies post codes on their office walls for the guidance of employees. In one instance the code is merely kept on file—for examination upon request. Two of the companies publish their codes in booklet form. In the limited number of leading corporations submitting data, both extremes were represented so far as publication of codes is concerned. In the one instance it was admitted that until now their management code had not been communicated formally. On the other hand, one of the other concerns reported that their code is widely distributed—with over 2,500 copies of all policies in standard binders for availability to all components of the organization.

Opinions as to Value and Effectiveness of Formalized Codes

One of the major objectives of the Management Code Survey was to obtain the opinions of various company managements as to the value and effectiveness of formalized codes of ethics and other statements of policy in modern business. Ten, or 88.33 per cent, of the twelve leading corporations cooperated by voicing their opinions. Of this number, six
held favorable opinions of the value of formalization of codes; two, unfavorable; and the others, highly doubtful. A good example of a positive opinion was expressed by a company spokesman who maintained that "we believe they are both desirable and necessary for good management. . . . There is need for all concerned to know common interests and common purposes which should guide all in their individual and joint efforts." Another company's representative, taking a negative view, claimed that "to formalize codes, which in our opinion by necessity incorporates conformance and retarded translations from thought to deed, would hamper the effectiveness of our present management." This opinion reflects the attitude held by a number of the trade association members to the effect that a formalized code hinders effective competition. Although maintaining that a code of ethics is of utmost importance, one concern's spokesman went on to qualify his positive opinion so far as formalization is concerned. He wrote, "we have not felt that, to be effective, such a code would necessarily have to be a written, formalized document." The opinion was also expressed that formalized codes will work in some companies but not in others.

Although not returning a completed questionnaire, the vice-president of one of the country's major metal fabricators, replying by letter to the survey inquiry, gave a most
interesting opinion as to the value of formalized codes. An excerpt from his letters appears below.

The writer personally questions the value of formalized codes of ethics or other general statements of policy in the light of today's high standards attained in business and industry. At best, to be applicable to all conditions, such formalized statements normally circumscribe minimum acceptable business principles or relationships. It is difficult to conceive that any business or industrial enterprise can achieve reasonable success under today's operations of the American free and competitive system, without striving at all times for the best possible relationships in every respect. In any event, public statements are no better than the organizations behind them and organizations are bound to be judged by the sum total of the actions of those many individuals who are handling their contacts.

It is believed that the opinions, such as those mentioned above, concerning the value and effectiveness of formalized codes were, for the most part, quite sincere. The writers seldom gave approval or condemnation without indicating the lines of reasoning leading them to their respective conclusions.

Comparative Analysis--Age of Concern

Six of the twelve leading concerns returning questionnaire data had been in operation 50 years or less. The other six have been active for a longer period. The questionnaires were studied to determine any significant variations between the two age groups. In analyzing the information supplied, two such variations were noted. The first dealt with the possession of a formal code. With the
six in business 50 years or less, three had and a like number did not have a formalized code. In the case of the older group, only a single company had such a code, while the remaining five did not. Thus of the four formal codes represented among the 12 companies submitting returns, three, or 73 per cent, of these codes were found in companies with less than 50 years of service. The second variation appeared in the method by which the codes were made known to the various groups involved. In the younger group where the larger number of codes were found, the codes were posted, distributed in booklet form, and placed on file. None of these methods were utilized by the older groups. Rather, the one company having a code included the code in its organization policy manuals and procedure circulars.

Comparative Analysis--Number of Employees

The questionnaire data was analyzed for the five companies with 15,000 or fewer employees and the seven concerns with more than 15,000 employees. A greater interest in both formal and informal codes was noted in the case of the "larger" concerns. Three, or 75 per cent, of the total number of formal codes were found in this group. Likewise four, or 80 per cent, of the informal codes had been recognized by the companies with the greater number of employees. Thus a greater interest in formal codes was found among the "younger" but "larger" (as measured by number of employees) organizations.
Summary

When 41 American corporations were surveyed in the preliminary study, 25 replied with 12 returning completed questionnaires. Six of the firms had been in business for over half a century, and nine employed over 10,000 workers.

Four of the firms had adopted formalized statements of policy. In one instance the formalization of company objectives had come about as the result of a new president who wanted his subordinates to be aware of his philosophy of management. Other factors influencing adoption of codes were the desire to "live right;" the growth and diversification of a business; and the desire to follow uniform policies in order to become a leader in industry. More interest was shown in formalized codes by the younger (under 50 years) but larger (over 15,000 employees) organizations. The majority of those firms not possessing formalized codes stated that they had not considered it necessary to put their policies into writing. Five of the concerns indicated that they operated under recognized informal codes.

When the corporations were asked what use they made of the formalized codes of the various trade associations to which they belonged, only two firms indicated that they regularly incorporated the association code into their own written policies. It appeared that the others made only limited use of the trade association codes. Three of the organizations claimed to use their company codes in the
formulation of their policies. Assurance of such a code-policy relationship was sought mainly by the use of administrative and technical specialists and close managerial supervision.

The participating firms listed customer, competitor, and governmental relations as those areas in which both the trade association and their own company codes had been most useful. There was little indication of uniformity in either the method of publication or extent of distribution of the codes. Four of the respondent companies claimed that they checked compliance with the policies based upon their codes. Three concerns had made formal provision for the enforcement of their codes, and for corrective action when code violations are discovered.

Of the 12 firms returning questionnaires, 10 offered their opinions concerning the value and effectiveness of formalized codes. Six of them held favorable opinions, 2 unfavorable, and the other 2 were doubtful of their usefulness.
CHAPTER VII

SURVEY OF MEMBERSHIP OF THE GRAY IRON
FOUNDERS SOCIETY, INC.

Introduction

As was indicated in the introduction, the Gray Iron Founders Society, Inc., was selected for study as representative of that group of trade associations in the metal products industry having a written, formalized code of ethics.* The officers of this organization, having its headquarters in Cleveland, Ohio, were most cooperative in furnishing copies of their code and current directory of members. In August, 1954, a questionnaire* accompanied by a explanatory covering letter* was forwarded to each of the 516 members (duplications having been eliminated) of GIF (as the Gray Iron Founders Society, Inc., will be referred to hereafter). A month later a follow-up letter* was sent to those members who had not replied by that time. Replies were received from 93, or 18.02 per cent, of the society membership. Of this number 77, or 82.80 per cent, forwarded questionnaire data.

*See Appendix D for a copy of this document.
Before being questioned regarding the various aspects of trade association and company codes, the GIF members were asked to supply these items of general information. Table 13 shows that 60, or 77.92 per cent, of the 77 member companies returning questionnaire data have been in business for over 30 years.

Table 13

Number and Percentage Distribution of 77 GIF Members by Number of Years in Operation

<table>
<thead>
<tr>
<th>No. of Years in Operation</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 10</td>
<td>4</td>
<td>5.19</td>
</tr>
<tr>
<td>11 - 20</td>
<td>3</td>
<td>3.90</td>
</tr>
<tr>
<td>21 - 30</td>
<td>10</td>
<td>12.99</td>
</tr>
<tr>
<td>31 - 40</td>
<td>14</td>
<td>18.18</td>
</tr>
<tr>
<td>41 - 50</td>
<td>11</td>
<td>14.29</td>
</tr>
<tr>
<td>51 - 60</td>
<td>10</td>
<td>12.99</td>
</tr>
<tr>
<td>61 - 70</td>
<td>7</td>
<td>9.09</td>
</tr>
<tr>
<td>71 - 80</td>
<td>5</td>
<td>6.49</td>
</tr>
<tr>
<td>81 - 90</td>
<td>4</td>
<td>5.19</td>
</tr>
<tr>
<td>91 - 100</td>
<td>2</td>
<td>2.60</td>
</tr>
<tr>
<td>Over 100</td>
<td>6</td>
<td>7.79</td>
</tr>
<tr>
<td>No Answer</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>77</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

In succeeding chapters it will be interesting to note the variations between the possession and use of codes by the members of GIF, the majority of which have been in business for many years, and that of the much younger memberships of the other trade associations selected for investigation.
While, as noted above, the vast majority of the GIF members replying were found to have been in operation for a good many years, the companies were found to be quite small—when measured by number of employees. Table 14 shows that 50, or 64.94 per cent, of the 77 companies sending data have 200 employees or less.

Table 14

Number and Percentage Distribution of 77 GIF Members by Number of Employees

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 50</td>
<td>22</td>
<td>28.56</td>
</tr>
<tr>
<td>51 - 100</td>
<td>17</td>
<td>22.08</td>
</tr>
<tr>
<td>101 - 200</td>
<td>11</td>
<td>14.29</td>
</tr>
<tr>
<td>201 - 300</td>
<td>4</td>
<td>5.19</td>
</tr>
<tr>
<td>301 - 400</td>
<td>5</td>
<td>6.49</td>
</tr>
<tr>
<td>401 - 500</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td>501 - 1000</td>
<td>6</td>
<td>7.79</td>
</tr>
<tr>
<td>10001 - 5000</td>
<td>3</td>
<td>3.90</td>
</tr>
<tr>
<td>50001 - 10,000</td>
<td>3</td>
<td>3.90</td>
</tr>
<tr>
<td>10,001 - 20,000</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td>20,001 - 30,000</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td>30,001 - 40,000</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td>No Answer</td>
<td>2</td>
<td>2.60</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Despite the fact that over 64 per cent of the GIF companies employ less than 200, 73 of the 77 firms have availed themselves of the advantages offered by the corporate form of organization (as shown in Table 15).
Table 15

Number and Percentage Distribution of 77 GIF Members by Type of Business Organization

<table>
<thead>
<tr>
<th>Type of Business Organization</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietorship</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td>Partnership</td>
<td>3</td>
<td>3.90</td>
</tr>
<tr>
<td>Corporation</td>
<td>73</td>
<td>94.80</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Possession of Formal Company Code

The GIF members were asked to indicate whether they had adopted a formalized company code or other statement of policy. Only five concerns, or 6.49 per cent replied they had such a code. Four of the five sent copies of their code. These codes will be discussed presently.

Of the 67, or 87.01 per cent, of the companies specifically stating that they had no formal code (5 companies did not answer the inquiry), 57 members gave their reason for not having adopted a code. These reasons are listed below with the frequency of their appearance noted before each reason.

(18) Unnecessary
(13) Not required in small closely-knit organizations
(13) Use Trade Association code
(4) Have informal code
A corporation should conduct its business on same basis as would a responsible and moral citizen.

Company reputation based on Transactions --based, in turn, on Christian Principles.

Not sufficiently comprehensive--such codes are made to be broken.

Adoption of code would seem to admit presence of bad practices.

Thus, although the GIF member companies had, in most cases, a good many years of experience in the foundry business, a significant number of them had not deemed it necessary to put their ethical codes into writing at the company level. As indicated, some of them do use their association codes or have informal codes which are recognized. The opinions of the GIF company managements regarding the value and effectiveness of formalized codes will be discussed further at a later point in this chapter.

**GIF Association and Company Formalized Codes**

The code of ethics of the Gray Iron Foundry Industry (reproduced in Appendix D) is distributed to the GIF membership in booklet form. A somewhat different form was taken by the four GIF company codes. One company incorporated its code in its "Terms and Conditions of Sale." Another expressed its objectives as follows:

**OUR AIM**

To build a company which gives greater security to its people. . . . employees and stockholders. This means making our company
A better place to work
A better neighbor in the community
A better company to sell to
A better company to buy from
A better company to invest in

To achieve this Aim we must find for everything we do—a better way.

A third company presented its code in the form of four questions designed to act as a check upon proposed statements or actions by management. These questions were as follows:

1. Is it the truth?
2. Is it fair to all concerned?
3. Will it build goodwill and better friendship?
4. Will it be beneficial to all concerned?

Still a different form was taken by the fourth code. In this case a one page document (on heavy paper suitable for posting or framing) displays the Golden Rule in the words of nine different religions. These statements are described as "The Divine Principle--The Priceless Ingredient--The Common Denominator."

The Code of Ethics of the Gray Iron Foundry Industry and the four codes of member companies were analyzed from the standpoint of the type of business relations mentioned. Table 16 summarizes the results of this analysis. In the case of the company codes of a very general nature—as noted above—for analytical purposes a single mention was deemed to have been made of each of types of business relations. It was noted that the industry code placed much more emphasis on competitor relations than did the company codes. This would be expected of the association code since its interests would
### TABLE 16

Number and Percentage Distribution of Types of Business Relations Referred to in GIF Codes by Type of Code, by Number of Times Mentioned

<table>
<thead>
<tr>
<th>Type of Code</th>
<th>Customer</th>
<th>Dealer</th>
<th>Competitor</th>
<th>Supplier</th>
<th>Employee</th>
<th>Financial</th>
<th>Owner</th>
<th>Community</th>
<th>Public</th>
<th>Government</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIF Industry Code</td>
<td>8</td>
<td>--</td>
<td>9</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>--</td>
<td>--</td>
<td>2</td>
<td>--</td>
<td>--</td>
<td>26</td>
</tr>
<tr>
<td>Member Code: (1)</td>
<td>11</td>
<td>6</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>--</td>
<td>19</td>
</tr>
<tr>
<td>(2)</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>10</td>
</tr>
<tr>
<td>(3)</td>
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<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>10</td>
</tr>
<tr>
<td>(4)</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>9</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>49</td>
<td></td>
</tr>
</tbody>
</table>

| GIF Industry Code | 30.77 | 34.62 | 11.54 | 7.69 | 7.69 | -- | -- | 7.69 | -- | -- | 100.00 |
| Member Code: (1) | 57.90 | 31.58 | -- | -- | 5.26 | -- | -- | -- | -- | 5.26 | 100.00 |
| (2) | 10.00 | 10.00 | -- | 10.00 | 20.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | -- | 100.00 |
| (3) | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | -- | 100.00 |
| (4) | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | -- | 100.00 |
quite naturally be centered in the relationship between these concerns comprising its membership. Both classifications of codes placed much emphasis upon customer relations. Dealer relations also was singled out for special consideration by the most complete of the GIF company codes. The other classifications of business relations were accorded lesser, but more equal treatment by the member companies involved.

In later chapters, the GIF codes will be compared with the codes submitted by the members of the other associations included in the survey.

**Operation under Recognized "Informal" Code**

"Informal" rather than formalized codes were found to be in much wider use among the 77 GIF members furnishing questionnaire data. Thirty-eight, or 49.35 per cent, of this group stated they do operate under such a code; 17, or 22.08 per cent, reported they do not, and 22, or 28.57 per cent, did not answer the inquiry. Of the 38 operating under an informal code, all but two provided descriptions of such operation. These descriptions are listed below. When more than one concern gave the same or a very similar description, the number of companies represented is indicated before the statement.

1. Honesty and fair dealing guide practices and decisions

2. "The Golden Rule"
(5) Follow trade association code plus good sense and fairness

(3) Incorporated in ordinary policies and procedures

(3) Being a small concern, owners handle major negotiations with customers and employees

(3) Our customer must be satisfied

(2) A corporation should conduct its business on same basis as would a responsible and moral citizen

Dishonesty and other unethical practices are not tolerated

Competition forces following general trend--making code as we go along

Guidance of our management comes from the traditions of the company

Our "understood" code rests in the hearts of our employees

Our customers know the usual ethics in buying, costing, etc.

Quality and service--All employees must be happy on the job they are performing or they are of no use to themselves or the company

Informal code based on formalized statement of objectives

While some of these descriptions of informal codes may seem to be elusive and lacking in substance, many companies, including some of our leading American Corporations (noted previously), do not consider it either necessary or advisable to formalize their ethical codes or other statements of policy.
Use Made of Gray Iron Founders Society Code

It has been pointed out that the ethical code formulated by the Gray Iron Founders Society, Inc. was distributed to all of its members. As a natural follow-up, the survey sought to discover just what use was made of it by the membership. Forty, or 51.95 per cent, of the 77 concerns returning questionnaires volunteered this information. It was somewhat surprising to learn that 14, or 35 per cent, stated that they made no use whatever of their association code. The complete list of the uses made by the companies appears below—the number of companies being indicated where more than one firm made the same use of the code.

(14) "None"

(7) Used with customer and competitor relationships

(5) Copy of association code is mailed to customers

(4) Followed quite closely

(4) Basis to guide own acts

(3) Used very little

In our opinion, it represents the low-water mark

Use as general policy—plus good sense and fairness

Not familiar with trade association codes

Thus half of the firms describing their use of the association code admit that they made very little or no use whatever of the GIF statement. And, in another case, a com-
plete lack of familiarity with the document was claimed. In line with the emphasis in the GIF industry code, those companies which did make use of the code found it most advantageous in customer and competitor relations.

**Codes and the Formulation of Company Policy**

Being interested greatly in the relationships between formalized codes and company policy, the GIF members were asked specifically whether they used the association and their own code in the formulation of company policy. The answers to this inquiry are shown in Table 17.

### Table 17

<table>
<thead>
<tr>
<th>Type of Code and Response</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Association</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use</td>
<td>31</td>
<td>40.26</td>
</tr>
<tr>
<td>Do Not Use</td>
<td>10</td>
<td>12.99</td>
</tr>
<tr>
<td>No Response</td>
<td>36</td>
<td>46.75</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>100.00</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use</td>
<td>10</td>
<td>12.99</td>
</tr>
<tr>
<td>Do Not Use</td>
<td>9</td>
<td>11.69</td>
</tr>
<tr>
<td>No Response</td>
<td>58</td>
<td>75.32</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Table 17 discloses a rather interesting discrepancy in the questionnaire data. In a previous question when the companies were asked what use they made of their association code, only 21 companies indicated that they used the code to
any appreciable extent. Yet, the replies to the question directed specifically to company policy indicate that 33 companies claim to use their association code in the formulation of policy. With the total of 43 (5 formal--38 informal) codes at the company level, Table 17 indicates that 10, or less than a fourth use their company codes in the formulation of company policy.

Only 18, or 23.38 per cent, of the 77 cooperating GIF companies volunteered brief descriptions regarding the ways in which their codes are related to company policy. Two of the firms pointed out that such codes are company policy. Eight of the concerns found their codes most useful as a guide in establishing prices, settling claims, and other aspects of customer relations. Still others claimed that their codes were of aid in defining areas of responsibility with suppliers and competitors. One firm mentioned that its informal code--The Golden Rule--affected every facet of policy, and that their trade association code provided the basis for its application. A need for flexibility in the code-policy relationship was maintained by the representative of one concern when he wrote that "individual circumstances, generally speaking, are quite important and we are guided by the code or resulting company policy based on past experience."

When asked to indicate how they assured themselves that their codes were actually used in the formulation of company policy, 22, or 28.37 per cent, of the 77 cooperating
firms replied. Six replied that no problem was encountered in this regard since they were small concerns with "close management." Four others gained such assurance through periodic conferences of supervisors and other interested personnel. It was interesting to note that some firms felt that such assurance was automatically achieved: in one case, by printing the code on the back of each quotation; and in another by mailing a copy of the code to all customers once a year. Still another concern relied upon the customers for such assurance. Its representative stated that "our customers advise us regarding statements, promises, etc., made by our employees." Several companies emphasized the maintenance of high standards in all customer relations—by mutual understanding. One of the companies placed the responsibility for relating the codes to company policy on the department heads. Another claimed to have achieved this objective by "continuous insistence and action." In another case cost accounting and quality control were mentioned as playing a part in gaining such assurance. All degrees of assurance were represented in the replies to this inquiry—from the three companies that admitted that they possessed no procedures to assure a code-policy relationship, to the firm that confidently maintained that its company policies had always been formulated on the basis of fair play in all business relations.
Value of Association Code in Business Relations

Of the 77 GIF member concerns submitting questionnaires, 39, or 50.65 per cent, did not indicate the types of business relations in which their association code was found to be of greatest value. The replies of the 38 firms answering the inquiry are summarized in Table 18. Here the types of business relations are listed in the order of the number of companies mentioning each. Practically all of the companies mentioned a number of types of business relations. Thus the percentage figures in Table 18 do not total 100 per cent. The data in Table 18 reflects the emphasis placed upon customer and competitor relations in the GIF Code. In this respect, it might be assumed that the code is achieving what it set out to do. However, it must be recalled that a

<table>
<thead>
<tr>
<th>Type of Business Relations</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>37</td>
<td>97.37</td>
</tr>
<tr>
<td>Competitor</td>
<td>23</td>
<td>60.53</td>
</tr>
<tr>
<td>Employee</td>
<td>10</td>
<td>26.32</td>
</tr>
<tr>
<td>Government</td>
<td>10</td>
<td>26.32</td>
</tr>
<tr>
<td>Supplier</td>
<td>8</td>
<td>21.05</td>
</tr>
<tr>
<td>Public</td>
<td>8</td>
<td>21.05</td>
</tr>
<tr>
<td>Financial</td>
<td>6</td>
<td>15.79</td>
</tr>
<tr>
<td>Dealer</td>
<td>5</td>
<td>13.16</td>
</tr>
<tr>
<td>Owner</td>
<td>4</td>
<td>10.53</td>
</tr>
<tr>
<td>Community</td>
<td>4</td>
<td>10.53</td>
</tr>
</tbody>
</table>
sizeable number of companies, as heretofore noted, admitted that they make very little use of their association code.

Twenty-one of the 38 companies indicating the types of business relations in which their association code was found to be of greatest value offered reasons for their areas of emphasis. As would be expected, many of these centered around customer and competitor relations. Some typical examples are listed below.

- Help keep non-ethical competition under control
- To enable customer and competitor to have clear understanding of policy
- To assist in arriving at a fair price for services rendered
- Eliminates price cutting and unfair competitive practices
- To insure same fair treatment customer would receive from competition

Two of the companies found their association code to be of more general value. The spokesman for one concern considered that "as a standard for the whole industry it is accepted as a guide in all relations." In the other case, it was stated that "the code of ethics of the Gray Iron Founders, Inc., is recognized by courts or legal counsel when there is a difference between customers and foundry."

**Value of Company Codes in Business Relations**

When information was sought as to the types of business relations deriving greatest value from company ethical
codes (formal and informal), 28, or 36.36 per cent, of the 77 GIF members responded. A summary of these responses appear in Table 19. As was the case with the trade association code above, the GIF members often indicated a number of the types of business relations. Although customer relations were once again mentioned by the largest number of companies, the positions of competitor and employee relations were reversed. This is in line with previous observations to the effect that company codes are inclined to emphasize internal relations more than do codes at the association level. However, when the other types of external relations are considered, it will be noted that dealer relations were accorded considerably more attention in connection with company codes than with the GIF industry code.

<table>
<thead>
<tr>
<th>Types of Business Relations</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>26</td>
<td>92.86</td>
</tr>
<tr>
<td>Employee</td>
<td>16</td>
<td>57.14</td>
</tr>
<tr>
<td>Competitor</td>
<td>13</td>
<td>46.43</td>
</tr>
<tr>
<td>Dealer</td>
<td>13</td>
<td>46.43</td>
</tr>
<tr>
<td>Supplier</td>
<td>10</td>
<td>35.71</td>
</tr>
<tr>
<td>Community</td>
<td>10</td>
<td>35.71</td>
</tr>
<tr>
<td>Government</td>
<td>9</td>
<td>32.14</td>
</tr>
<tr>
<td>Financial</td>
<td>8</td>
<td>28.57</td>
</tr>
<tr>
<td>Public</td>
<td>7</td>
<td>25.00</td>
</tr>
<tr>
<td>Owner</td>
<td>6</td>
<td>21.43</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>7.14</td>
</tr>
</tbody>
</table>
Just 12 of 28 concerns listing the types of business relations deriving the greatest value from company codes also offered reasons for their choices. They dealt, for the most part, with customer, employee, and competitor relations. Several examples are listed below:

So they know what to expect and realize we treat everyone alike.

The long established feeling of fair play to all and the moral interpretation of guarantees and contracts rather than a strictly legal or technical use.

It has built consumer confidence in us over the years.

Confidence inspired by integrity, fair dealing, efficient service and mutual benefits.

One of the companies finding their company code of value in the areas of employee, customer, owner and dealer relations pointed out that "one must live with these everyday, and if these four areas are in good order one's business will prosper." Still another firm, quite positive as to the value which can be derived from a company code, gave, as its reason, the following statement: "It speaks for the company and for each individual in a way that cannot be mistaken and is therefore believed."

Factors Influencing Adoption of a Formal Code

The GIF members possessing ethical codes listed rather interesting factors influencing their adoption. The influence of the industry in company affairs was evident in
the firms which gave as their factors "to be in the majority" and "to move toward a uniform practice in the Gray Iron Industry." Apparently some difficulty with dealer relations was responsible in one case where it was asserted that "too many dealers (were) saying there were 'special deals' given here." It was interesting to note that the Rotary, which played a very important role in the development of early ethical codes in American business, was responsible for one of the GIF member codes. Referring to their code, this company's representative admitted that "it was originally a suggestion by the local Rotary Club, and is really their makeup." In still another case, it seems that several of the company's key personnel had completed an AMA Management Course and, as a result, the company is "beginning to put things down on paper."

Provisions for Enforcement of Codes

Questionnaire data show that very little has been done by GIF members to provide for the enforcement of either their association or company codes. Table 20 gives a summary of the replies on this point.

While only three companies had formal provisions for the enforcement of their codes, 8 of the 16 GIF members indicating whether they checked compliance with their codes claimed to do so. Two companies pointed out that no check was needed because the owners and managers are all active in
Table 20

Number and Percentage Distribution of 77 GIF Member Companies Answering Inquiry Concerning Possession of Provisions for Enforcement of Ethical Codes

<table>
<thead>
<tr>
<th>Type of Code and Response</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trade Association</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Provision</td>
<td>2</td>
<td>2.60</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>29</td>
<td>37.66</td>
</tr>
<tr>
<td>No Response</td>
<td>46</td>
<td>59.74</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Company</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Provision</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>13</td>
<td>16.88</td>
</tr>
<tr>
<td>No Response</td>
<td>63</td>
<td>81.82</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>100.00</td>
</tr>
</tbody>
</table>

every phase of their operations. Another stated that "there are no enforcement procedures except the respect and goodwill of those affected." Only a single firm was very positive in replying. In this case compliance was achieved by "constant alertness and supervision." Another member used an internal check on the handling of orders. In the other cases compliance was checked through customer contacts. Two examples are listed below:

Company and customer are completely familiar with code and either party is free to call the other on a deviation.

Only to yield to pressure of customer or refuse to do business with him unless he is willing to comply with our terms.
The first part of this last method discloses that, in this case, the company may not always comply with the code provision, competition forcing abandonment.

**Provision for Corrective Action when Code Violations Are Discovered**

As stated above, only three companies stated they had provisions for the enforcement of their codes. Nevertheless, five concerns claimed to have formal provisions for corrective action when code violations are discovered. However, one of the five merely relied upon the weight of trade association pressure. The representative of another of the firms described their method as follows: "We mail copy of code to violator, point out applicable paragraph and politely request adherence. This is accepted for the most part without further debate." Two of the other concerns centered their provisions around employee and competitor relations. One of these companies expressed this view as follows:

Employees who do not give our customers honest answers, no matter how damaging to us, do not work here long. Neither do foremen who will not be honest with our employees. Competitors who do unethical acts do not worry us. They won't be around too long.

The fifth concern failed to describe its provision other than stating that "our formal provision is covered when we first hire (an employee) or supply a customer."
Method of Publication of Formalized Codes

Of the 28 firms answering the inquiry as to how their formalized (association and company) codes are made known: 4 posted them on office walls; 6 distributed them in booklet form; and 6 kept them on file for inspection upon request. The other 19 used different methods of publication. Several firms publicized their codes by printing emblems, or parts of the code itself, on advertising copy, catalogues, quotation forms, order acknowledgments, and letterheads. Two of the companies mailed copies to customers. Another had included its code in general statements of policy over a long period of time. In still other cases the codes were described verbally to customers and to employees in personal contacts. In the case of employees, one firm mentioned that it held periodic talks with all employees in group meetings, and, at least once a year, an individual conference in the president's office. Apparently adhering to the old axiom that "actions speak louder than words," another of the GIF member companies achieved publication of its codes by "continuous action and demonstration."

Opinions As To Value and Effectiveness of Formalized Codes

An analysis of the opinions of the managements of the 45 GIF members supplying such information disclosed that 14 (31.11%) favor, 18 (40.00%) do not favor, and 13 (28.89%) are highly doubtful of the value and effectiveness of
formalized codes. Some of the typical opinions in each of these categories are presented below.

Representatives of those firms finding formalized codes to be of value offered the following opinions:

Good idea. We like it. Only a few dealers care but those that do care know we are square.

Code of Gray Iron Founders Society has been most helpful in relationships of customers and suppliers in that it fairly outlines business procedures where elements of conflict arise most frequently.

Necessary because of the complexity of our system—to secure uniform interpretation of many rules and regulations.

Enables us to compare our own policy with policies of Trade Associations.

Our formal company code helps with employee relations.

A must if a company is to survive.

A must in large organizations.

Good—You cannot stay in business successfully and pleasurably without a firm code of ethics—formal or otherwise.

Favorable opinions, but with certain reservations, were noted in the following two cases:

Very good if competitive companies in industry would use ethics as (do) those companies who do a better job in the industry.

Would be of greatest value to new companies and companies in new fields of endeavor.

As noted above, 40 per cent of those offering opinions do not favor formalized codes. In a few instances the
negative opinions were rather forceful—as in the following cases:

Mostly fine things to frame and hang on office walls. They impress some, influence few, and guide fewer people.

Feel that many (or most) of these items are usually "Flash in the Pan." They are concentrated upon while fresh in mind but soon are relegated to the bottom drawer or "circular file" and forgotten.

We try to "live and let live."

Cannot see that customers pay too much attention to codes—We must produce or else.

Not necessary—nor of value.

Two of the companies felt that codes of behavior for business organizations should be the same as those which, by tradition, govern conduct of individuals. One of the companies, thinking that the Golden Rule is the best code of ethics, stated that; "we use our customers, competitors, help and associates as we ourselves like to be used—nothing formal—but everyday common sense."

Examples of opinions in the "doubtful" category are listed below:

Think codes are of value in the professions but of doubtful value in business.

Still no good if all concerned won't follow.

Value depends entirely upon the individual company circumstances.

Since a corporation is made up of a large number of individuals, it is realized that practice may not always correspond to the ideal.
Tend to work beautifully when there is sufficient business for all. Tend to be ignored when competition becomes rough.

Thus, less than a third of the companies offering opinions were, without reservation, in favor of formalized codes. Of course, this number comprises but a small percentage of the association's total membership. Therefore, one would hesitate to draw too hasty a conclusion from this data. Nevertheless, the information regarding the use, value and effectiveness of the association code that has been brought to light in this survey should be of interest to the Gray Iron Founders Society. It might prove worth-while for the association to re-evaluate the usefulness and effectiveness of their formalized code.

**Comparative Analysis—Age of Concern**

The 76 cooperating GIF members giving data regarding age were divided into two groups: the 7 concerns that have been in operation 20 years or less, and the 69 firms that have been in business for a period in excess of 20 years. When the data furnished by the two groups were studied, some interesting variations were noted. It was found that each of the five formalized company codes was adopted by a firm which has operated for over 20 years. Likewise, "informal" codes were found to exist in many more of the "older" concerns. In the case of the firms with 20 or fewer years of experience, just 28.58 per cent have recognized informal codes; while 50.72 per cent of the concerns in operation for
over 20 years operate under such a code. It follows, of course, that the older firms might be expected to use their codes more fully in the formulation of company policy. However, little variation was noted in the case of the use of the association code with the two groups. The older companies having written company codes claimed to use them in formulating company policy.

None of the firms with a history of 20 or fewer years possessed formal provisions for taking corrective action when code violations are discovered. Only 5, or 7.25 percent, of the 69 firms in the older group have provided for such an eventuality. Thus, it seems that there has been no significant attempt made to provide adequate machinery for dealing with code violations.

Comparative Analysis—Number of Employees

Analysis of the questionnaire data disclosed that 4 of the 5 formalized company codes were adopted by small firms employing up to 100 employees. However, 58.33 percent of the GIF members with over 100 employees compared with 41.03 percent of the firms with a smaller number of employees, operate under recognized informal codes.

An interesting variation was noted in regard to provisions for enforcement of codes. In the case of the GIF code, two of the firms employing up to 100 employees have made such provision, while none of the larger firms have
done so. However, with the company codes the situation was reversed. Here none of the companies employing 100 or less had provided for enforcement while one of the larger organizations was found to have such a provision.

A comparative analysis was also made using 300 employees as the dividing line. It was learned that all of the 5 formalized company codes have been adopted by organizations employing up to 300 employees. The variation was much less pronounced with regard to operation under recognized informal codes. Of the 54 concerns in the 1-300 employee groups, 25 or 46.30 per cent operate under a recognized informal code; while 12, or 57.14 per cent, of the companies employing over 300 persons do so. Two of the 77 GIF members returning questionnaires failed to list their number of employees.

It was also noted that a larger percentage of the firms with 300 or fewer employees used their association code in the formulation of company policy than was the case with firms employing a larger labor force. Likewise, firms in the 1-300 employee category were alone in providing for corrective action in the event the association code was violated. However, only 2 or 3.70 per cent of the companies in this group were involved.

Summary

Of the 516 members of the Gray Iron Founders Society Inc. (GIF) surveyed, replies were received from 93 with 77 returning completed questionnaires. Nearly 80 per cent of
the cooperating firms had been in business for thirty years or more. Fifty of the companies were found to employ not more than 200 workers. Nearly all of the respondents were incorporated. The code of ethics of the Gray Iron Foundry Industry is distributed to the GIF membership in booklet form.

Only five of the GIF members cooperating in the study were found to possess formalized codes of their own at the company level. All five of these firms were at least twenty years old, and four of them employed less than 100 workers. Adoption of the codes was due to such factors as: the desire for uniform practices in the industry; pressure from dealers; influence of a local Rotary Club; and the completion of an AMA Management Course by the key personnel of a company. Of the 67 companies specifically stating that they had not adopted a formalized company code, 18 believed them to be unnecessary. Another 13 claimed they were not needed in small, closely-knit organizations. A like number found the use of the association code to be sufficient. Compared to the five firms which had adopted formalized codes, 38 were found to operate under informal codes. Many of these emphasized honesty and fair dealing and the use of The Golden Rule. Informal codes, like the written ones, were found to be most numerous among the older companies.

When asked about the use of their codes, 35 per cent of the firms answering the inquiry admitted that they made no
use whatever of their association code. The other GIF members reported that they used their industry code more frequently than their company codes in the formulation of company policy. However, few of the concerns appeared to possess controls which would assure the continuity of such a code-policy relationship.

A comparison of the GIF association and company codes disclosed a number of differences. While the association code (see Appendix D) is quite lengthy, the company codes are less detailed. While both code classifications gave considerable attention to customer relations, the industry and company codes gave more emphasis to competitor relations and employee relations respectively. Few of the companies surveyed were found to possess formal provisions for either the enforcement or the checking of compliance with their codes. It was interesting to note that the older and smaller firms were more active in enforcing and providing for corrective action when codes were violated.

Of the 45 GIF members volunteering their opinions as to the value and effectiveness of formalized codes, only 14 (13.11%) were found to favor their use. A slightly larger number (18 or 40 per cent) expressed a negative view, while the remaining 13 (28.89%) questioned their usefulness. While the 45 GIF members responding to this particular questionnaire
inquiry represent less than nine per cent of the total GIF membership, the Gray Iron Founders Society might well profit from a reexamination of the effectiveness of their industry and company codes.
CHAPTER VIII

SURVEY OF MEMBERSHIP OF THE RADIO-ELECTRONICS-TELEVISION MANUFACTURERS ASSOCIATION

Introduction

RETMA, as the Radio-Electronics-Television Manufacturers Association will be referred to hereafter, was established in 1924. It was chosen for study since it represents an industry which has been operating under a set of FTC Trade Practice Rules. Such rules have been included in the term "code of ethics" for the purposes of this survey. The radio receiving set manufacturing industry operated for a number of years under a set of trade practice rules (applying only to radio) promulgated in July, 1939. Seeking to modernize the old radio rules and make them applicable to television, representatives of the radio and television manufacturing industry held a Trade Practice Conference in June, 1951. Since that time additional meetings have been held and the Federal Trade Commission issued a set of proposed trade practice rules for this industry on September 10, 1953. These rules, in their final form, were promulgated by the FTC on June 28, 1955. They are reproduced, in full, in Appendix E.
Questionnaires were forwarded to 353 members of RETMA (duplications having been eliminated) on January 10, 1955. Follow-up letters were sent in March to the companies not sending an early reply. Copies of the questionnaire, the covering letter, and the follow-up letter appear in Appendix E. Replies were received from 83 or 23.51 per cent of RETMA's membership. Of these replies, 70 or 84.34 per cent returned completed questionnaires.

Age--Number of Employees--Type of Business Organization

RETMA members, in general, were found to have a lower number of years of service than was the case with the Gray Iron Founders Society. While 77.92 per cent of the GIF group had been in business for over 30 years, only 22.86 per cent of the RETMA group had been in operation for a similar period. Table 21 provides a breakdown of the RETMA members so far as number of years in operation is concerned. With the concentration of RETMA firms being found with less than 30 years of business experience, it will be interesting to compare, at a later point, their answers to questionnaire items with the older GIF membership.

Although the majority of RETMA member concerns are not large, those returning questionnaires were found to employ a larger number than was the case with the GIF concerns cooperating in the survey. While 50.64 per cent of the GIF group employed up to 100 workers, only 27.14 per cent
### Table 21

**Number and Percentage Distribution of 70 RETMA Members by Number of Years in Operation**

<table>
<thead>
<tr>
<th>Number of Years in Operation</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 - 10</td>
<td>19</td>
<td>27.14</td>
</tr>
<tr>
<td>11 - 20</td>
<td>10</td>
<td>14.29</td>
</tr>
<tr>
<td>21 - 30</td>
<td>18</td>
<td>25.71</td>
</tr>
<tr>
<td>31 - 40</td>
<td>8</td>
<td>11.43</td>
</tr>
<tr>
<td>41 - 50</td>
<td>1</td>
<td>1.43</td>
</tr>
<tr>
<td>51 - 60</td>
<td>4</td>
<td>5.71</td>
</tr>
<tr>
<td>61 - 70</td>
<td>2</td>
<td>2.86</td>
</tr>
<tr>
<td>71 - 80</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>81 - 90</td>
<td>1</td>
<td>1.43</td>
</tr>
<tr>
<td>91 - 100</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>No Answer</td>
<td>7</td>
<td>10.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>70</td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Of the RETMA firms were found to be in this category. Table 22 summarizes the distribution of RETMA firms by number of employees.

### Table 22

**Number and Percentage Distribution of 70 RETMA Members by Number of Employees**

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 100</td>
<td>19</td>
<td>27.14</td>
</tr>
<tr>
<td>101 - 200</td>
<td>7</td>
<td>10.00</td>
</tr>
<tr>
<td>201 - 300</td>
<td>6</td>
<td>8.57</td>
</tr>
<tr>
<td>301 - 400</td>
<td>5</td>
<td>7.14</td>
</tr>
<tr>
<td>401 - 500</td>
<td>3</td>
<td>4.29</td>
</tr>
<tr>
<td>501 - 1000</td>
<td>6</td>
<td>8.57</td>
</tr>
<tr>
<td>1001 - 2000</td>
<td>7</td>
<td>10.00</td>
</tr>
<tr>
<td>2001 - 3000</td>
<td>1</td>
<td>1.43</td>
</tr>
<tr>
<td>3001 - 4000</td>
<td>3</td>
<td>4.29</td>
</tr>
<tr>
<td>4001 - 5000</td>
<td>1</td>
<td>1.43</td>
</tr>
<tr>
<td>5001 - 6000</td>
<td>4</td>
<td>5.71</td>
</tr>
<tr>
<td>No Answer</td>
<td>8</td>
<td>11.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>70</td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
A close similarity was noted in the GIF and RETMA group so far as type of business organization is concerned. RETMA's distribution is shown in Table 23.

Table 23

Number and Percentage Distribution of 70 RETMA Members by Type of Business Organization

<table>
<thead>
<tr>
<th>Type of Business Organization</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietorship</td>
<td>1</td>
<td>1.43</td>
</tr>
<tr>
<td>Partnership</td>
<td>3</td>
<td>4.29</td>
</tr>
<tr>
<td>Corporation</td>
<td>65</td>
<td>92.85</td>
</tr>
<tr>
<td>No Answer</td>
<td>1</td>
<td>1.43</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Possession of Formal Company Code

With the exception of two members, all of the remaining 68 RETMA firms indicated whether they had adopted a formal code at the company level. Thirteen, or 18.57 percent of the companies possessed such a code while 55, or 78.57 percent did not. Ten of the thirteen companies with codes indicated their dates of adoption. Only one was formulated before 1940 (in 1938). Eight of the group were adopted in the 1945-1950 period. In the last instance, the code was adopted in 1954. In just three instances, the
original codes had been revised. The original adoption and revision dates were as follows:

<table>
<thead>
<tr>
<th>Original Adoption Date</th>
<th>Revisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>1954</td>
</tr>
<tr>
<td>1946</td>
<td>1950 and 1953</td>
</tr>
<tr>
<td>1947</td>
<td>&quot;Continuously&quot;</td>
</tr>
</tbody>
</table>

**Reasons for Not Adopting Formal Code**

Of the 55 RETMA concerns which stated they have not adopted a formal code, 42 or 76.36 per cent gave one or more reasons for not having done so. The reasons which were most frequently advanced are listed below with the number of companies involved noted in each case.

14) Not needed--as we follow the Golden Rule or Rules of Fair Play--just treat everyone fair and square.

6) Small company--no loss of control of customer relationship has occurred. Have good reputation and know our employees very well.

4) Adhere to general trade practices and trade association codes.

3) A business institution, no less than an individual, can operate under ethical principles without stating them.

2) We hope that our major executives are persons of integrity that will guide the company along channels of honesty and fair dealing.

2) There are standard trade practices which we--and we hope our competitors believe in and practice. Writing it and advertising it does not make it any more or less effective or usable.
In a few instances the reasons given evidenced a rather marked negative attitude toward formal codes, for example, the following:

Business conditions change too fast and written codes are not flexible enough.

It is impractical to adopt a written "code of ethics" which would be applicable in all fields without making such a "code of ethics" a mere generalization of platitudes.

We prefer to let performance speak for itself.

In some instances the firms frankly admitted that they had been "too busy" to formulate a formal code. One firm admitted that this was undoubtedly due to procrastination and pressure of other matters. Another expressed it in these words: "We're too busy to do it right, and more important, we think such a statement can sound pompous and self-righteous. What a company does speaks louder than what it claims to be."

In some instances RETMA members appeared to rely on what might be termed alternatives to formalized codes. Such suggestions are included in the following reasons:

Abide by warranty and guarantee.

All major decisions are made jointly by the President and Vice-President, and their own Christian principles dictate the decisions.

Follow some basic lines of code of ethics formulated by parent company--consistent with good industry practice.

Use informal code.
We fed that by living up to (our) principles, we are complying with what might be the most severe code of ethics that can be formulated by anyone.

Varying degrees of interest in formalized codes were indicated in the replies. One concern stated: "This is the first time the possible advantages of such a code has been brought to our attention." It is hoped that the impetus given by the survey caused this firm to give more thought and study to codes. Another organization indicated that it had not given any formal attention to the subject. On the other hand, one company mentioned that it was currently preparing a formalized code.

In addition to the reasons for not adopting a code which have already been mentioned, three others were found to be quite interesting. A very brief but meaningful reason was noted when one company representative merely stated "competition," thus suggesting the belief (encountered before) that coping with competition and operation under a formalized ethical code are incompatible. Comparing company to individual conduct, the representative of another concern answered the inquiry as follows:

Perhaps for the same reason that each of us, as an individual, may be guided by definite rules of conduct and morality, yet we commonly keep these rules in our hearts, rather than on paper.

A rather unusual reason for not adopting a formalized code was presented when it was asserted that "no written code at all can spread a feeling of trust which people have in you.
and your company." This view was not explained further. It may be that this company belongs to that group maintaining that "actions speak louder than words."

Comparison of Formalized Association and Company Codes

Unlike the Gray Iron Founders Society, Inc., which has adopted its own association code of ethics, the Radio-Electronics-Television Manufacturers Association has no code of its own. Rather, it operates under FTC Trade Practice Rules.

The FTC rules for the radio and television industry, in their final form, are quite extensive--being composed of 32 basic rules with numerous sub-sections. It is published in booklet form for distribution to interested parties (see Appendix E). Four of the five RETMA codes at the company level were embodied in formalized statements of policy appearing under such headings as "The ideals of this business," "Statement of Policy," and "General Objectives, Policies, and Principles." In the case of the other RETMA member, the code was composed of several documents bearing the following titles: "Our Creed," "Our Objectives," "Industrial Relations," "Community Relations," and "Financial Policy."

Customer relations received, by far, the greatest emphasis in the Trade Practice Rules. While only 30.77 percent of the provisions of the GIF association code referred to this type of business relations, the FTC Trade Practice
Rules devoted 68.60 per cent of their treatment to the phase. Dealer and competitive relations followed, each being mentioned nine times. This was far behind customer relations, however, which was mentioned in 59 instances. In the case of the five RETMA company codes, there was a difference in emphasis. Here the totals of the type of business relations mentioned were greatly affected by the one rather extensive code devoting over half of its content to internal managerial relations. Of the other types of business relations listed, employee relations received the most emphasis in the company codes. Customer and financial relations followed in order of frequency of mention. Table 24 summarizes the data pertaining to both the industry trade practice rules and the five RETMA codes at the company level.

**Operation under Recognized "Informal" Code**

While only 13, or 18.57 per cent, of the 70 RETMA firms were found to have adopted their own formalized codes, 35 or 63.64 per cent maintained that they operate under a recognized informal code. This number was somewhat greater than the 49.35 per cent of the GIF group operating under such a code. Practically all of the RETMA group basing their activities on informal codes briefly described them.

The type of informal code most frequently described was the Golden Rule or Rules of Fair Play. Eight firms mentioned the Golden Rule specifically. In one instance it
Table 24

Number and Percentage Distribution of Types of Business Relations Referred to in RETMA Codes by Types of Code, by Number of Times Mentioned

<table>
<thead>
<tr>
<th>Types of Business Relations</th>
<th>Customer</th>
<th>Dealer</th>
<th>Competitor</th>
<th>Supplier</th>
<th>Employee</th>
<th>Financial</th>
<th>Owner</th>
<th>Community</th>
<th>Public</th>
<th>Government</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry FTC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Practice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rules</td>
<td>59</td>
<td>9</td>
<td>9</td>
<td>--</td>
<td>3</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>5</td>
<td>86</td>
</tr>
<tr>
<td>Member Code: (1)</td>
<td>2</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>15</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>Member Code: (2)</td>
<td>1</td>
<td>--</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td></td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Member Code: (3)</td>
<td>7</td>
<td>--</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>--</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Member Code: (4)</td>
<td>8</td>
<td>--</td>
<td>3</td>
<td>2</td>
<td>--</td>
<td>30</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>54</td>
</tr>
<tr>
<td>Member Code: (5)</td>
<td>1</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>--</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>6</td>
<td>5</td>
<td>49</td>
<td>15</td>
<td>8</td>
<td>6</td>
<td>7</td>
<td>6</td>
<td>59</td>
<td></td>
<td>183</td>
</tr>
</tbody>
</table>

Percentage Distribution

| Industry FTC               |          |        |            |          |          |           |       |           |        |            |        |       |
| Trade Practice             |          |        |            |          |          |           |       |           |        |            |        |       |
| Rules                      | 68.60    | 10.47  | 10.47      | --       | 3.49     | 1.16      | --    | --        | --     | --         | 5.81   | 100.00 |
| Member Code: (1)           | 5.56     | --     | --         | 2.77     | 41.67    | 13.89     | 13.89 | 8.33      | 5.56   | --         | 8.33   | 100.00 |
| Member Code: (2)           | 50.00    | --     | 12.50      | --       | 12.50    | --        | 12.50 | 12.50     | --     | --         | 100.00 |        |
| Member Code: (3)           | 29.17    | --     | 8.33       | 8.33     | 8.33     | 16.67     | 4.17  | --        | 8.33   | --         | 16.67  | 100.00 |
| Member Code: (4)           | 7.48     | --     | 2.81       | 1.87     | 28.04    | 4.67      | .93   | .93       | .93    | 1.87       | 50.47  | 100.00 |
| Member Code: (5)           | 12.50    | --     | --         | --       | 12.50    | 12.50     | 12.50 | 12.50     | 12.50  | 12.50      | 12.50  | 100.00 |
| Total                      | 12.02    | --     | 3.28       | 2.73     | 26.78    | 8.20      | 4.37  | 3.28      | 3.83   | 3.28       | 32.24  | 100.00 |
was also stated that "to our minds there is only one way of doing business, and that is on a fair and equitable basis."

Four concerns related the principles of fair dealing which they had developed over the years to their relationships with customers, suppliers, employees, and the general public. Three company representatives gave the greatest emphasis to honesty with customers and employees. Another trio of RETMA members indicated that the business ethics of their respective organizations were the reflection of their own owner-management groups. In each of the following cases two companies provided a similar description of their informal code.

In the first instance, the rendering of utmost cooperation to customers was paramount; for example, fulfilling a customer requirement even though a warranty period had run out. In the second case, the emphasis was placed upon the maintenance of cordial relations among as well as with employees. The third pair of companies acknowledged that they have principles under which they run their respective businesses, but admit that they have not thought of them as constituting a code.

Provision of a useful service to the industry was emphasized in several of the other informal codes. One of the firms related the service objective to employee and owner relations when its representative stated that "it is the company's policy to provide even better and more convenient service to the public at the lowest rates that will
permit fair wages to the employee and a reasonable return to the owners." Competitor relations was mentioned by another company, not as a deterrent to operation under an ethical code (as has been noted in other instances heretofore) but as encouraging ethical conduct. This company's representative maintained that "competition in all fields necessitates fair treatment." One of the RETMA members in describing its informal code, pointed out that "being exporters, we follow the principle of giving the foreign customer a square deal." Thus it can be seen that the ethical conduct of American businesses may have international consequences.

Several of the other informal code descriptions deserve mention. The origin of their informal code was discussed in one case. There a code dealing with various phases of business was developed piecemeal over a period of years in various inter-office memos directed to department heads. Responsibility for ethical conduct was centered upon the qualifications of the individual executives by the one concern whose spokesman observed that "over the years, no man has been permitted to hold an executive position except as he had proper self respect and respect for others." Not mentioning their own industry's Trade Practice Rules, it was interesting to note that one RETMA member found the "AMSE: Manual of Consulting Practice for Consulting Engineers" helpful as a guide in their operations. Still another of the companies based the description of their operation under an
informal code on basic moral issues. Its representative
maintained that "the guiding motive must be a sharp distinc-
tion between right and wrong, rather than to judge right by
what you can get away with." A final example of the descrip-
tions of operation under an informal code is this rather
comprehensive statement offered by the spokesman for a RETMA
concern:

Our company's products are known throughout the
world as representative of the highest quality
and workmanship, with honesty and integrity the
primary requisite in our dealings with custo-
ners, suppliers, employees and stockholders
over a long period years.

Use Made of RETMA Trade Practice Rules

Of the 70 RETMA members returning questionnaire data,
39, or 55.71 per cent, answered the inquiry concerning use of
their industry's FTC Trade Practice Rules. It was learned
that slightly over half of this number make very little or
no use whatever of the Trade Practice Rules (17 or 43.59 per
cent answered "none;" 2 or 5.13 per cent indicated "very
little;" and one concern claimed it was not aware of its
provisions). It will be remembered that 35 per cent of the
GIF group failed to make use of their trade association code.

An analysis of the 19, or 48.72 per cent, of the RETMA
firms making some use of their industry's Trade Practice
Rules revealed that 8, or 20.51 per cent, sought to adhere to
the set of rules as they appertain to their respective
businesses. Another of the firms regarded them as the
minimum standard in preparing its policies. Still another company representative merely claimed them to be of use in "guidance." Several of the RETMA members indicated that they found the FTC rules of particular value in customer relations. For example, one concern included excerpts from the rules in their advertising copy. Another printed the RETMA emblem on its correspondence.

Three of the other answers to this inquiry were found to be of interest. In one case, the RETMA member was apparently a leader in the association since its spokesman stated that its "representatives of management in sales, advertising, and service have been very active in the formulation of RETMA policies and trade practices." Another concern claimed that the FTC rules merely conform with practices and policy already informally in effect. The third company representative made an interesting statement whose implication raises an issue which is beyond the scope of this survey. In this case it was stated that:

We have cooperated with RETMA in their trade practice conference activities, but have remained clear of their activities elsewhere because of the fact that they are so likely to go beyond what is permitted by FTC.

Codes and the Formulation of Company Policy

As was the case with the survey of the Gray Iron Founders Society, the RETMA members were asked to indicate whether their industry and/or company codes were used in the
formulation of company policy. Table 25 provides a summary of the answers to this inquiry. It will be noted that just

Table 25

<table>
<thead>
<tr>
<th>Type of Code and Response</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry FTC Trade Practice Rules</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use</td>
<td>16</td>
<td>22.86%</td>
</tr>
<tr>
<td>Do Not Use</td>
<td>14</td>
<td>20.00%</td>
</tr>
<tr>
<td>No Response</td>
<td>40</td>
<td>57.14%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00%</td>
</tr>
<tr>
<td>Company Code</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use</td>
<td>20</td>
<td>28.57%</td>
</tr>
<tr>
<td>Do Not Use</td>
<td>8</td>
<td>11.43%</td>
</tr>
<tr>
<td>No Response</td>
<td>42</td>
<td>60.00%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

22.86 per cent of the RETMA members cooperating in the survey use their industry Trade Practice Rules in the formulation of company policy. In the GIF survey 40.26 per cent of the replying concerns used their association code for the same purpose. Just the opposite situation was true in the case of company codes. Here, just 12.99 per cent of the GIF group, compared to 28.57 per cent of the cooperating RETMA members, utilized their company codes in policy formulation.

The majority of those RETMA members using codes in the formulation of company policy offered some further
information as to how this was accomplished. The area of customer relations was often mentioned. One company representative stated that "the emphasis on fair play and square dealing controls the thinking, planning, and formulating of company policies." Seeking to insure that policies conform to codes, a number of methods of achieving this objective were mentioned. One company merely stated that it gave its code full consideration in management decisions. Another firm incorporated its codes into its policy manual, procedure and instruction manuals and other types of published literature. In another instance the necessity for indoctrinating management was pointed out. This firm's representative stated that "generally we try to sell the policies represented by our code to the management both present and those coming up." This company apparently was aware of the fact that, unless its ethical code has the support of top management, efforts to enforce its provisions at lower levels may be seriously hampered. The importance of the role played by top management was emphasized by two of the RETMA members. One of the these firms related code provisions to policy formulation through direct action by the board of directors. the other relied upon policy statements by its President and Vice-President.

In the above paragraph the major ways in which the RETMA codes were related to company policy were examined. The next step was to ascertain how the companies assure themselves that the codes are, in fact, used in the formulation
of company policy. Of the 70 cooperating RETMA members, 28 or 40 per cent described their method of obtaining such assurance. Twelve of the firms depended upon management supervision to accomplish this objective. In one case all new policies were checked by management for departure from code provisions before going into effect. Others depended upon the maintenance of close coordination between all departments through committee and staff meetings. Internally, provision for conformance with codes was achieved by still another business through formalized instruction and procedure manuals prepared for employees.

A number of RETMA firms minimized the importance of the problem of assuring the use of codes in policy formulation. Three firms maintained that they had not encountered any difficulty in this regard since their concerns were small enough so that the directors always knew what was going on. Two of the organizations claimed to have solved the problem merely of their plant offices. In still another case, a most optimistic firm claimed to have obtained such assurance "by simply following the code." Quite a different view was taken by another RETMA member whose spokesman observed that "this is a matter of policing. There are always some disgressions."

Customer relations figured in some cases of obtaining assurance. In one instance it was stated that all advertising material was checked for conformance with trade
association policy by the company's legal department. Another firm's sales department maintained constant contact with distributors and dealers. A third company's spokesman claimed assurance of the code-policy relationship was accomplished "by knowing the customer and applying the Golden Rule."

**Value of Trade Practice Rules in Business Relations**

Survey data discloses that 25, or 35.71 per cent, of the cooperating RETMA members indicated the types of business relations deriving value from the industry's FTC Trade Practice Rules. Table 26 summarizes this information. Since, in practically all cases, the companies indicated more than one type of business relations, the percentage distributions

<table>
<thead>
<tr>
<th>Type of Business Relation</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>22</td>
<td>88.00</td>
</tr>
<tr>
<td>Employee</td>
<td>15</td>
<td>60.00</td>
</tr>
<tr>
<td>Supplier</td>
<td>15</td>
<td>60.00</td>
</tr>
<tr>
<td>Competitor</td>
<td>13</td>
<td>52.00</td>
</tr>
<tr>
<td>Government</td>
<td>12</td>
<td>48.00</td>
</tr>
<tr>
<td>Dealer</td>
<td>11</td>
<td>44.00</td>
</tr>
<tr>
<td>Financial</td>
<td>9</td>
<td>36.00</td>
</tr>
<tr>
<td>Public</td>
<td>8</td>
<td>32.00</td>
</tr>
<tr>
<td>Community</td>
<td>8</td>
<td>32.00</td>
</tr>
<tr>
<td>Owner</td>
<td>5</td>
<td>20.00</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>--</td>
</tr>
<tr>
<td>(Educational)</td>
<td>1</td>
<td>4.00</td>
</tr>
</tbody>
</table>
do not total 100 per cent. It will be noted that one of the firms mentioned an additional type of business relation, "educational." The representative of this organization mentioned that his firm cooperated with state educational institutions in the development of engineering talent.

As was the case with the GIF and their association code, the RETMA members found the Trade Practice Rules of their industry of greatest value in customer relations. The other types of business relations emphasized by the GIF and RETMA memberships will be compared further in a later chapter.

Only 16 or 64 per cent of the 25 RETMA firms supplying information regarding business relations supplied reasons for the value assigned to the various types of business relations. Five of the 16 reasons centered around competitor relations. Four of the firms felt that the trade practice rules aided in the establishment of uniformity among competitors in the field. The other concern considered that the FTC rules tended to "reduce competitor's false and unethical sales methods." Customer relations was specifically referred to by three RETMA members. In the first case it was believed that the Trade Practice Rules assured customers of comparable equipment standards, terms, and conditions. A second firm emphasized the effect of the rules upon the ability to make fair and prompt adjustments with customers. The third member offered a most interesting reason when its representative observed that, "our customer succeeds in a competitive
atmosphere if he is supported by an ethical principle in his manufacturing supplier." Here is a practical example of the far-reaching effects of ethical conduct in business. Dealer relations was given special attention by the company finding the FTC rules helpful in securing and retaining the "respect of one's dealers in our policies." Two of the RETMA members pointed out the value of the Trade Practice Rules in setting a standard. In one case, it was believed that by so doing, it permitted formation of judgment. The other company had quite a different way of putting it. This company's spokesman maintained that the rules "established a kind of par for the course."

Value of Company Codes in Business Relations

While only 25 (35.71%) of the cooperating RETMA members indicated the types of business relations deriving the most benefit from the FTC Trade Practice Rules, 37 or 52.86 per cent supplied such information so far as company codes are concerned. Table 27 summarizes this data. Since the RETMA members commonly listed more than one type of business relation, the percentages in this table do not total 100 per cent.

Apparently company codes, like the FTC Trade Practice Rules, were found to be of greatest value in furthering customer relations. Employee relations was second in number of times mentioned (in both cases) but received greater emphasis
Table 27

Number and Percentage Distribution of 37 RETMA Members Finding Company Codes of Value, by Types of Business Relations Mentioned

<table>
<thead>
<tr>
<th>Type of Business Relations</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>31</td>
<td>83.78</td>
</tr>
<tr>
<td>Employee</td>
<td>30</td>
<td>81.08</td>
</tr>
<tr>
<td>Supplier</td>
<td>20</td>
<td>54.05</td>
</tr>
<tr>
<td>Financial</td>
<td>17</td>
<td>45.95</td>
</tr>
<tr>
<td>Public</td>
<td>14</td>
<td>37.84</td>
</tr>
<tr>
<td>Community</td>
<td>12</td>
<td>32.43</td>
</tr>
<tr>
<td>Government</td>
<td>12</td>
<td>32.43</td>
</tr>
<tr>
<td>Dealer</td>
<td>10</td>
<td>27.03</td>
</tr>
<tr>
<td>Competitor</td>
<td>10</td>
<td>27.03</td>
</tr>
<tr>
<td>Owner</td>
<td>8</td>
<td>21.62</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>5.41</td>
</tr>
</tbody>
</table>

with company codes. It is interesting to note that the GIF company codes also placed customer and employee relations in first and second places respectively.

In addition to the ten categories of business relations listed on the questionnaire form, one firm added "educational," believing that its company code, like the Trade Practice Rules, was useful in its cooperative activities with state educational institutions in the development of engineering talent. Another RETMA member pointed out that their code was not aimed at any one specific area; rather, it was designed to encompass all areas.

Just 22 or 59.46 per cent of the 37 RETMA members mentioning types of business relations deriving value from their company codes gave reasons for such emphasis. Two of the companies mentioning customer relations considered: in
the one instance, that their company code enabled them to make fair and prompt adjustments with customers; and, in the other case, that the code was responsible for the fact that "our customers believe in us." The reasons given by five of the firms centered around employee relations. In two cases it was felt that their company codes had given their employees a greater sense of identification with company interests. Another maintained that the code "allows all employees to check management's action." Adoption of a company code, according to a fourth concern's representative, had resulted in improved employee relations. The fifth RETMA member credited their company code with the fact that seven attempts to unionize various sections of their organization had failed. Awareness of the competitive nature of the industry was evident in the reasons given by two of the firms. One stated that its company code was needed "to prevent complete disorganization in a highly competitive industry." The other very candidly but meaningfully merely replied "survival." Two of the concerns believed that adherence to their code had enhanced their reputation. One of them stated: "Our customers, the public and our suppliers have absolute confidence in our integrity."

The other reasons for the value of company codes in the various types of business relations were of a more general nature, rather than being centered around one type of
business relations. Examples of this group are presented below:

Fair treatment of all phases—product quality, price, service, customers relations, etc.

The establishment of a code of behavior and practices which meets with general acceptance removes doubt and uncertainties as to the course of action to follow in the usual and unusual circumstances.

The value of the code rests in the fact that those with whom you deal have an understanding of what ideas and ideals you have.

Some kind of a set of rules is needed for consistency in dealing with recurring problems, and to bring about the ethical conduct desired by the owner and management.

Keeps us "in tune" with remainder of industry on good business practices and relations.

Factors Influencing Adoption of a Formal Code

Twelve of the 13 RETMA members reporting that they had adopted formalized codes at the company level listed one or more of the factors which had influenced such adoption. One of the firms stated that the formalization of its code was based upon the conviction of its founders and management. Another considered it a responsibility of modern management to go on record. Provision of a goal for attainment was the factor listed by two other concerns. One of them adopted the code "to have an objective which is constant, positive and fair to all elements of business." An additional three businesses had adopted codes in formulating rules of conduct. As one of them put it: "The establishment of a standard
procedure for all to follow makes for ease and uniformity of operation." Employee relations was deemed to be the major factor in three cases. One company believed that the code stimulated employee interest in improving quality and performance. The other two felt that their codes assisted in the orientation of new employees. One concern pointed out how the importance of employee and customer relations entwine when its representative emphasized "interest in individuals' well-being either as employees or customers--without one, confidence of other cannot be gotten and business must suffer."

Good will was mentioned by three of the firms as a factor in the adoption of its formal code. One of them mentioned the need for making "our publics aware of the company's philosophy which would result in added good will for the company and improved relations." One firm's ambition for the future was evident when it stated that the desire to survive, grow and become successful was behind its adoption of a code. Another RETMA member felt that its position as a supplier was clarified by the adoption of its code. The last reason was interesting, if not informative. This company's spokesman merely stated that it had adopted a code because "we thought it would be a good thing."

Provisions for Enforcement of Codes

Analysis of the questionnaire data disclosed that only 5.71 per cent of the participating RETMA firms had
provisions for the enforcement of the industry’s set of Trade Practice Rules. A somewhat larger group (17.14%) provided for the enforcement of their company codes. Table 28 summarizes the answers to this inquiry. As was the case

Table 28
Number and Percentage Distribution of 70 RETMA Member Companies Answering Inquiry Concerning Possession of Provisions for Enforcement of Ethical Codes

<table>
<thead>
<tr>
<th>Type of Code and Response</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTC Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Practice Rules</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Provision</td>
<td>4</td>
<td>5.71</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>20</td>
<td>28.58</td>
</tr>
<tr>
<td>No Response</td>
<td>46</td>
<td>65.71</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Provision</td>
<td>12</td>
<td>17.14</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>14</td>
<td>20.00</td>
</tr>
<tr>
<td>No Response</td>
<td>44</td>
<td>62.86</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.00</td>
</tr>
</tbody>
</table>

with the GIF members, the response to the inquiry concerning possession of provisions for enforcement of codes was relatively small.

Checking Compliance with Policies Based upon Codes

Although a lesser number of the RETMA members possessed specific provisions for the enforcement of codes, 18 or 25.71 per cent made some attempt to check compliance with the policies based upon the codes. Six of these relied upon
management activity in the day-to-day operations of the business. In one case such a check was incorporated into management's monthly meeting agenda. In the others, being small businesses, daily supervision by the owner-managers (all active in the business) provided for a constant review of practices. In one instance it was stated that employee performance was compared with "guide line" to determine conformity. Policies dealing with sales activity were checked, by one concern, through maintaining personal contact with customers. Another used a uniform distributor franchise agreement and enforced its provisions. Still another organization found the maintenance of a file system on dealers and distributors helpful. It was interesting to note that apparently one concern assumed that if sales held up sufficient compliance is being maintained, for this firm checked compliance by merely watching the yearly sales picture.

Two of the RETMA members believed that notification of non-compliance will come from the "outside" rather than being uncovered by internal checks. One concern's representative pointed out that: "the customer, supplier, employee will be the first to advise that the rules of (fair) play have been broken--when it happens." In the second case, an immediate check is made on any adverse comment or reaction coming to management's attention, plus a periodic check of all external relationships. Prompt attention to violations was suggested by two of the firms. In one instance, they were called to
management's attention and the policy concerned was reiterated. In the other case it was noted that "those responsible for unethical practice usually are picked up pretty fast and rarely have the occasion for a second chance."

It was interesting to note that one company made a special point of checking the compliance of its competitors with the industry's Trade Practice Rules. Non-complying competitors were often reported informally to RETMA. The association then discussed the matter informally with the offender. Although the company claimed that 99 per cent of the problems are handled in this way, in extremely unusual cases a complaint is made to the Better Business Bureau or the Federal Trade Commission, or legal action is taken.

As indicated above, most of the companies answering the survey's inquiry did not have well formulated procedures for checking compliance with the policies based upon either their industry's Trade Practice Rules or their own company codes. One company admitted that this checking system was only an "informal" one. The policies of another were checked by keeping them "in front of employees and supervision."

**Provision for Corrective Action when Code Violations Are Discovered**

Eight of the RETMA members returning questionnaire data claimed to have formal provisions for corrective action when code violations were discovered. Five of this number
described corrective action taken in the event company personnel were at fault. Upon the discovery of code violations in two of the firms, a top management meeting was promptly called in which violations were completely aired. This plan, it was claimed, usually resulted in corrective measures being taken. A third firm included the making of proper apologies to injured parties in their plan. The others handled such violations by taking disciplinary action in the same manner as would be done when any other company rules are violated.

In the event customers or competitors were the violators, two of the firms would first investigate the matter and discuss it with the offending party. If satisfaction was not obtained, one of the firms would go further; notify RETMA, complain to the Better Business Bureau or the FTC, or even take legal action if necessary. A positive approach was taken by one of the other companies which handled this problem as follows:

We take corrective action in the spirit of re-education rather than punitive. Thru personal contact, review, conference, and group discussion these ends are usually achieved. We often determine policy modifications as an end product from those meetings.

Method of Publication of Formalized Codes

In answer to the survey inquiry concerning how the industry Trade Practice Rules and company codes were made
known to various interested parties, the 70 cooperating
RETMA firms supplied the information summarized in Table 29.

Table 29
Number and Percentage Distribution of Methods Used by RETMA
Firms in Making their Codes Known, by Type of Publication

<table>
<thead>
<tr>
<th>Method of Publication</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Posted on Wall</td>
<td>8</td>
<td>11.43</td>
</tr>
<tr>
<td>Booklet Form</td>
<td>10</td>
<td>14.29</td>
</tr>
<tr>
<td>On File</td>
<td>6</td>
<td>8.57</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>22.86</td>
</tr>
<tr>
<td>No Answer</td>
<td>42</td>
<td>60.00</td>
</tr>
</tbody>
</table>

Since a number of the concerns utilized more than one type of publication for their code(s), the percentages in Table 29 do not total 100 per cent.

Of the 28 or 40 per cent giving positive answers to the inquiry, Table 29 indicates that 16 of the firms used methods in addition to those appearing on the questionnaire form. Nine of the 16 involved the printing of portions of the Trade Practice Rules or RETMA emblems in: catalogues, distributor franchise agreements, advertising literature, procedure and instruction manuals, trade publications, annual statements, and on letterheads and other correspondence. Additional methods of publication included personal letters to interested parties, and the mailing of copies of the code to customers. For internal distribution, one
company issued regular announcements to employees in the form of mimeographed sheets.

Opinions as to Value and Effectiveness of Formalized Codes

Of the 70 cooperating RETMA concerns, 44 or 62.86 per cent made the opinions of their respective managements available regarding the value and effectiveness of formalized codes. An analysis of these opinions disclosed the most interesting fact that while half of the group either favor formalized codes completely (16 or 36.36\%), or favor them with some qualification (6 or 13.64\%), the other 22 either definitely do not favor (14 or 31.82\%), or are highly doubtful (8 or 18.18\%) of the advantages offered by formalized codes.

Some examples of the favorable opinions offered by the RETMA members are as follows:

It is necessary to have a code or "Statement of Policy" to avoid misunderstanding and to keep objective thinking by employees in day to day work.

Our codes are our philosophy of doing business. It gives us standards by which to operate and assures our publics of our sincere desire to be a good industrial citizen.

Particularly important in manufacture and sale of technical products whose quality cannot be judged by customers without laboratory tests.

Sets clearer goals for new competitors in the field.

We consider them invaluable as a management tool in dealing with employees.
It is the only way of conducting a small business.

Formal codes needed to maintain high industry standards.

Needed to maintain good public relations.

Formal code would be desirable for us—would prevent many awkward situations that we get into inadvertently, not recognizing that an ethical problem is involved. We need one tailor made to our particular situation. As we become larger undoubtedly we shall reach a point where the time and expense of preparing a formal code are justified.

It was particularly gratifying to note that the survey was responsible for an increase in interest in formalized codes in the case of the following favorable opinion:

When a company becomes as old as we are and younger generations are continually appearing, they may not be familiar with the basic principles guiding those who have been instrumental in the development of the company and its products through the years. Your letter has, therefore, brought to mind the thought that we should perhaps attempt to codify the principles and policies which have guided our operations over the years so that this information will be available to our employees, customers, friends and business associates.

Approval with some qualification was indicated by those RETMA members whose spokesmen offered the following opinions:

Important to extent they be understood, and certain to extent they are firm.

If not too detailed—they are good.

They have a place in the large public-owned corporations.
Trade association codes are good but company codes are not needed.

Three examples of the opinions of those firms whose representatives reflected considerable doubt as to the value and effectiveness of formalized codes are as follows:

Individual opinion as to effectiveness of formalized codes is varied. We do not think a management opinion is in order at this time.

They are alright but like all other agreements depend upon the integrity of the parties involved.

Frankly, I don't know. We have used this code for many years, but I think it is one of those things that is like a person's conscience. I don't think they sit around thinking about it a great deal. Our code represents what we feel is good. Non-compliance might be allied to sin. When it comes to sinning, of course we are against it, even though we do it once in a while.

This last "doubtful" opinion was thought to be quite revealing since it represents a realistic approach to the question.

The opinions of those RETMA members not favoring formalized codes of ethics fell into two categories. One group questioned the necessity of putting such beliefs into writing, while the others did not believe they had any real value. Several typical opinions of the former group are presented below.

Basically, the results of a company's actions will always be what counts, and a code of ethics never can be a whitewash or perfume for unfair relationships.

If a company doesn't (or can't) live up to its code, it is better off without publishing one.
A formal code is not necessary if owners and management are honorable in all their business dealings.

We continue to believe that if one conducts a business in a completely honest, straightforward manner, this soon enough becomes known to everyone with whom he comes in contact—with or without a written statement.

The simpler any code can be to our minds the better it is. Furthermore, sometimes the unwritten code such as we have may be far more effective than anything we could put down in words.

As mentioned above, in addition to those firms believing that the formalization of ethical concepts was not necessary, there were a number of RETMA members having stronger unfavorable views regarding formalized codes. In some cases this attitude had arisen because of some unfortunate past experiences with unethical practices on the part of other firms. Illustrative of this type of opinion are the following:

Perhaps we are not large enough to appreciate the value of a formal "code of ethics." However our dealings with some very large top position "ethical" companies have been that they have treated us very unethically and that any code they had was absolutely meaningless.

Experience has taught us not to take "codes" too seriously.

We take very little note of them. Instead we rely on the character of individuals.

Somehow the term "formalized code of ethics" reminds me of the Boy Scout Oath. I have no fault to find with the Scouts or their oath (having been one and taken the oath) but I believe that when a man (or men) has reached the age and position of administrative or managerial capacity—no oath will help to guide his behavior if he hasn't developed the techniques
and abilities. If thru the years of growth and development he hasn't acquired a sense of fair play, knowledge and understanding of human weaknesses, he isn't fit to be in an administrative capacity.

We feel that a formalized implementation of any policy leads to decay and sterilization of company growth and success. (We believe that an open minded, experimental attitude will supply a creative norm, institutional method, and constitutional adaptation. Our company is new and is going thru an evolutionary process where the adaptive advance is a continued progressive approach to an approximately exact adjustment of inner and outer relations.)

In addition to these examples of unfavorable opinions, one firm's representative offered this statement, which might be interpreted in a number of ways: "Our company does not have a formal ... or recognized informal code. I trust this does not leave us in an amoral state."

**Comparative Analysis--Age of Concern**

Of the 70 RETMA firms returning questionnaire data, 64 supplied the number of years in operation. The data from the 29 firms in the 1-20 year group, and the 34 firms in business for over 20 years was analyzed to uncover significant variations.

Only a small difference was noted so far as the possession of formal codes at the company level was concerned. Of the younger group, 24.14 per cent had adopted codes, while 17.65 per cent of the older group had done so. In the case of informal codes, however, the "over 20" group were found to have the greater number (55.88%) while 41.38
per cent of the younger group operated under them. Only slight differences were noted between the two groups with regard to the use of codes in the formulation of company policy. With the FTC Trade Practice Rules, 31.03 per cent of the younger group, compared to 20.59 per cent of the older group, used them in policy formulation. The younger group also made fuller use of its company codes. Here, 37.93 per cent of the younger group compared to 26.47 per cent of the over-20 year category.

A somewhat more significant variation was noted in regard to the possession of provisions for enforcement of the industry Trade Practice Rules. While none of the older RETMA members had made such a provision, 13.79 per cent of the younger group had done so. Six companies in each age group had enforcement provisions for their company codes. Likewise, the same number of firms (4 in this case) in both age groups had formal provisions for corrective action.

Comparative Analysis--Number of Employees

An analysis was made of the questionnaire data based upon the size of the companies as measured by the number of workers employed. Two categories were used, the 32 companies employing up to 300 employees, and the 30 firms having over 300 employees. Eight of the 70 companies returning questionnaire data failed to indicate the size of their labor force, hence the replies submitted in those questionnaires were not included in this analysis.
It was found that there was no significant variation between the two groups in regard to the possession of formal and informal codes. The number of codes in each category that had been adopted by RETMA members were found to be divided approximately equally between the two groups. When it came to using these codes in the formulation of company policy, it was found that greater use was made by the larger concerns. While 18.72 per cent of the smaller firms used the industry Trade Practice Rules in the formulation of their company policy, 30 per cent of the larger companies did. In the case of company codes, 21.88 per cent of the smaller and 43.33 per cent of the larger organizations closely related their codes to company policy.

When it came to provisions for the enforcement of policies based upon the codes, the larger concerns were again found to be more active. The number of firms having provisions for the enforcement of the FTC Trade Practice Rules was very small in both cases. Just 3.13 per cent of the firms in the 1-300 employee group, and 10 per cent of the larger concerns had such provisions. A slightly larger number of companies had such provisions with regard to their company codes (15.63 per cent of the firms in the 1-300 group and 23.33 per cent of the larger). Likewise, the RETMA members with more than 300 employees had given more attention to formal provision for corrective action once code violations were discovered. Of this group 16.67 per cent had made such
provision, compared with 9.38 per cent of the smaller organizations.

The comparative questionnaire data also disclosed that the larger concerns were making more of an effort to publicize their codes than were the smaller firms. Thus it appeared that the older firms employing over 300 employees had done more to bring the industry Trade Practice Rules and company codes to the attention of customers, employees, and other interested parties.

Summary

The Radio-Electronics-Television Manufacturers Association (RETMA) was established in 1924. Its first set of Federal Trade Commission Trade Practice Rules, adopted in July, 1939, were brought up to date and promulgated by the Federal Trade Commission on June 28, 1955 (see Appendix E). Of the 353 members of RETMA surveyed, replies were received from 83 with 70 returning completed questionnaires. In general, the RETMA members were found to be younger but somewhat larger than the GIF concerns. Like the GIF firms, most of the RETMA members were corporations.

Thirteen, or 18.57 per cent, of the cooperating RETMA firms were found to have adopted their own code. In adopting their formalized statements, they were influenced by such factors as: the desire to perpetuate the convictions of their founders; to provide an objective; to insure uniformity of operation; and to improve employee, customer, and supplier
relations. Of the larger group of RETMA firms which had not adopted codes, many felt that they were not needed, particularly in small companies. Others relied upon informal codes. In fact, 63.64 per cent of the cooperating RETMA firms claimed to operate under an informal code (compared to the 18.57 per cent adopting formalized codes). Like the GIF firms, the informal codes of the RETMA members emphasized the Golden Rule or Rules of Fair Play.

Half of the RETMA members answering the inquiry concerning the use of their industry's FTC Trade Practice Rules indicated that they made very little or no use whatever of them. Just 22.86 per cent of the RETMA members claimed to use the industry Trade Practice Rules in the formulation of company policy. A slightly larger percentage (28.57%) stated they put their company codes to such use. Many of the companies depended upon management supervision to assure that the codes were, in fact, used in the formulation of company policy. Others found committee and staff meetings to be helpful. Some attempt was made to check compliance with the policies based upon codes by 18, or 25.71 per cent, of the participating RETMA members.

The RETMA Trade Practice Rules included 32 basic rules with numerous sub-sections. This document was more detailed than the GIF code and the various company codes. By far the greatest attention was given to customer relations in the Trade Practice Rules, with dealer and competitor relations
following. Customer, employee, and supplier relations were mentioned most frequently in the company codes. Only 5.71 per cent of the participating RETMA firms provided for the enforcement of their industry Trade Practice Rules. A somewhat larger group (17.14%) took definite steps toward the enforcement of their company codes. Eight of the RETMA members returning questionnaires claimed to have made formal provisions for corrective action in the case of code violations.

Opinions as to the value and effectiveness of formalized codes were nearly equally divided. Of the 44 firms providing such information, 16 gave such codes their full support, while 6 favored them with some qualifications. However, 14 were definite in their opposition, and another 8 questioned their usefulness. The opinions expressed indicated that the survey had prompted a reconsideration of the use of formalized statements of policy. In at least one case it resulted in a firm planning positive steps to codify their principles and policies.
CHAPTER IX

SURVEY OF MEMBERSHIP OF THE AIRCRAFT
INDUSTRIES ASSOCIATION

Introduction

In selecting the Aircraft Industries Association for inclusion in the survey, a number of factors were taken into consideration. In contrast to the Gray Iron Founders Society, Inc., and many of the other trade associations in the metal products industry, the AIA (as the Aircraft Industries Association will be known hereafter) is a relatively new organization. Most of its members, like those of RETMA, have been in business less than 40 years.

While the GIF has its own formalized industry code of ethics which is distributed to all members, and RETMA members operate under its industry FTC Trade Practice Rules, the AIA does not have either type of formalized code for the guidance of its membership. It was desired to find whether the members of such an association (without the example of a formalized code at the industry level) would adopt codes at the company level as readily as under the other circumstances.
With headquarters in Washington, D.C., the AIA membership is made up of the following groups:

Division A -- Manufacturers of Aircraft, Aircraft Engines or Airframes
Division B -- Manufacturers of Accessories, Parts or Material Used in Aircraft Construction or Operation
Division C -- Distributors or Dealers in Aircraft, Aircraft Engines, Aeronautical Accessories, Parts or Materials, and Insurers or Classifiers of Aeronautical Risks

Questionnaires with appropriate covering letters, were sent to 90 AIA members in the three basic divisions (noted above) on January 10, 1955. The questionnaire was the same as that used for GIF and RETMA members except for the deletion of references to trade association codes since AIA members operate under neither an association code nor a set of FTC Trade Practice Rules. In March, 1955, follow-up letters were sent to those AIA members not replying by that time. Copies of the questionnaire form, the covering letter, and the follow-up letter appear in Appendix F.

Of the 90 AIA members surveyed, 35, or 38.89 per cent, replied by letter, and 28, or 31.11 per cent, returned completed questionnaires. Thus a larger proportion of the AIA membership cooperated in the survey than was the case with either the GIF or RETMA groups.

Age--Number of Employees--Type of Business Organization

As mentioned in the introduction, the majority of the AIA members returning questionnaire data were found to have
been in business 30 years or less. Table 30 summarizes this data.

Table 30

Number and Percentage Distribution of 28 AIA Members, by Number of Years in Operation

<table>
<thead>
<tr>
<th>Number of Years in Operation</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 10</td>
<td>7</td>
<td>25.00</td>
</tr>
<tr>
<td>11 - 20</td>
<td>7</td>
<td>25.00</td>
</tr>
<tr>
<td>21 - 30</td>
<td>6</td>
<td>21.43</td>
</tr>
<tr>
<td>31 - 40</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>41 - 50</td>
<td>2</td>
<td>7.14</td>
</tr>
<tr>
<td>51 - 60</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>61 - 70</td>
<td>3</td>
<td>10.72</td>
</tr>
<tr>
<td>71 - 80</td>
<td></td>
<td>--</td>
</tr>
<tr>
<td>81 - 90</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>91 -100</td>
<td></td>
<td>--</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Although the AIA members have, for the most part, been in business for a relatively short period of time, the nature of the industry has resulted in rapid growth. The natural growth of this relatively new industry has been stimulated by military needs during two major world conflicts. The distribution of AIA members by number of employees is shown in Table 31.

As in the case of the GIF and RETMA groups most of the AIA firms are incorporated. No proprietorships were reported and just two partnerships. The breakdown of the AIA firms by type of business organizations is shown in Table 32.
Table 31

Number and Percentage Distribution of 28 AIA Members by Number of Employees

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 100</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>101 - 200</td>
<td>2</td>
<td>7.14</td>
</tr>
<tr>
<td>201 - 300</td>
<td>1</td>
<td>3.57</td>
</tr>
<tr>
<td>301 - 400</td>
<td>1</td>
<td>3.57</td>
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<tr>
<td>401 - 500</td>
<td>1</td>
<td>3.57</td>
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<tr>
<td>501 - 1000</td>
<td>2</td>
<td>7.14</td>
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<tr>
<td>1001 - 5000</td>
<td>6</td>
<td>21.44</td>
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<tr>
<td>5001 - 10,000</td>
<td>2</td>
<td>7.14</td>
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<tr>
<td>10,001 - 20,000</td>
<td>2</td>
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<td>20,001 - 30,000</td>
<td>3</td>
<td>10.72</td>
</tr>
<tr>
<td>30,001 - 40,000</td>
<td>-</td>
<td>--</td>
</tr>
<tr>
<td>40,001 - 50,000</td>
<td>3</td>
<td>10.72</td>
</tr>
<tr>
<td>50,001 - 60,000</td>
<td>1</td>
<td>3.57</td>
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<tr>
<td>60,001 - 70,000</td>
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<td>3.57</td>
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<tr>
<td>No Answer</td>
<td>2</td>
<td>7.14</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Table 32

Number and Percentage Distribution of 28 AIA Members, by Type of Business Organization

<table>
<thead>
<tr>
<th>Type of Business Organization</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietorship</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Partnership</td>
<td>2</td>
<td>7.14</td>
</tr>
<tr>
<td>Corporation</td>
<td>26</td>
<td>92.86</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.00</td>
</tr>
</tbody>
</table>
Possession of Formal Company Codes

Only three, or 10.71 per cent, of the 28 cooperating AIA members were found to possess formalized codes. These three codes were adopted in 1938, 1948, and 1953 respectively. Of the three companies reporting having adopted formal codes, two of them furnished copies. These codes are described below.

One of the two AIA company codes took the form of a 4 x 5 inch printed card setting forth the company's six "Labor Relations Principles." Of course, employee relations was uppermost with a specific reference to union relations, in one instance. In addition, a single mention of owner relations was made, and management responsibility was treated at three points in the statement. To illustrate the type of material included, parts of two of this firm's formalized Labor Relations Principles appear below.

We expect all employees in a supervisory capacity or otherwise representing the management to conduct themselves in their daily relations with their fellow employees in such a manner as to secure the respect, loyalty and productivity of their fellow workers through consistent actions of fairness, honesty and human decency.

We believe that as long as we deserve it we shall have the willing cooperation and deep loyalty of our employees necessary to make our joint efforts ever more successful.

A two-page printed statement entitled "The GENERAL POLICIES of Your Company are . . ." is the form taken by the second AIA code. In the eight general principles
presented (supplemented by explanatory material) the greatest emphasis was placed upon employee relations and internal management responsibilities. Thus the two codes were quite similar so far as content is concerned. In addition, the second code did deal briefly with customer, financial, and owner relations. The eight GENERAL PRINCIPLES comprising the nucleus of this code are as follows:

1. To build the best possible airplanes from the standpoint of design, efficiency and quality of workmanship.
2. To stand behind our products firmly and advertise our products truthfully.
3. To create a strong and well-balanced organization of competent individuals.
4. To maintain harmony and cooperation between departments and between individuals.
5. To pay the highest earnings consistent with the financial soundness of the company.
6. To reward merit wherever found and eliminate internal politics completely.
7. To attempt to fit individuals to jobs where they can do their best work.
8. To select for advancement, those individuals already in the organization in preference to importing outsiders.

One of the leading aircraft manufacturers, in their reply to the survey inquiry, stated that they had not, as yet, adopted a code. However, they had prepared drafts of some policy statement, copies of which were sent along with their letter. These policy statements took the form of: Statement of Corporate Objectives; and Management Policy Statements concerning interdivisional business relations, and dissemination and exchange of information. The Statement of
Corporate Objectives set forth the company's responsibilities to the following groups:

"All Alike"
Customers
Employees
Stockholders
Suppliers, Bankers, Independent Professionals and the Like
Competitors
Trade and Professional Associations
Governments in whose jurisdictions they operate
The Public

It was interesting to note that the scope covered by these first "drafts" of policy statements was broader than that taken by the two recognized formal codes. Thus it would seem that it would be worthwhile for the firm to adopt and promulgate these policy statements as their ethical code.

Reasons for Not Adopting Formal Code

Of the 25 AIA companies not reporting the possession of a formalized code, 19 or 76 per cent offered one or more reasons for not having done so.

Five of the AIA members stated that they had not, as yet, felt the need for a formalized code. In four other cases, the particular characteristics of the management seemed to have been responsible for the failure to adopt a code. One of these concerns stressed the continuity of management and the fact that it develops its management from within. Another held each department head responsible for the ethics and integrity reflected by each department. A third firm emphasized the fact that it was "a closely knit
company with good communication." The spokesman for the fourth AIA member in this group gave an interesting reason, based upon his firm's organizational simplicity. He maintained that a formalized code was "somewhat foreign to our nature. We operate with a minimum of formalization in all respects."

Three of the AIA members pointed out that 100 per cent of their contracts were with the Department of Defense. Accordingly, they maintained, they were subject to all rules, regulations, and directives pertaining to government contractors. Operation within these limits, then, was deemed to constitute an alternative to operation under a formalized code or statement of policy. Three of the other AIA members had also adopted what they considered to be alternatives. After adopting a set of procedures, two firms had not felt that anything more was needed. In the third case, supervisors and other employees were provided with handbooks setting forth the various responsibilities related to policy.

Lack of time, due to the pressure of the day-to-day routine, was claimed by another three firms to be responsible for the failure to adopt a formalized code. In one instance the firm's present management had been in charge for a little less than six years. It was stated that they were "working on a code but just haven't completed same." The representative of the second firm stated that they were still in the research and development stage. In the third case, about two
years prior to the completion of the questionnaire the company's management had started to reduce a statement of their general objectives in writing. However, as yet, there had been "lack of time required to bring one to completion."

An additional trio of AIA members relied upon the conduct of their personnel to maintain their ethical standing. These firms gave the following reasons:

Formalized codes and statements are not needed when corporation executives observe principles of conduct generally accepted among honorable men and require their subordinates to do the same.

We hire people who conduct their lives on the highest moral and ethical plane and we expect them to conduct their business associations the same way.

Action speaks louder than words.

In addition to the various reasons given above for not adopting a formalized code, one concern stated that it used an informal code instead, and another found the code of one of the other business organizations it is associated with to be helpful. A third firm gave the following reason:

Men accustomed to working in harmony, each in his own specialty--mutual respect--unwritten code of the Old Guild of Craftsmen well schooled in their trades.

Still another of the AIA members listed a number of reasons, as follows:

Very rapid growth, constant change in product lines, number of different industries involved, and informal organization have all been factors in decisions not to adopt a written code.
Operation under Recognized Informal Code

While only 10.71 per cent of the cooperating AIA members had adopted formalized codes, 53.57 per cent were found to possess recognized informal codes. Twelve of the 15 firms having informal codes gave a description of their operation under such a code. Two of the firms merely mentioned the Golden Rule. Another characterized their operation to be "substantially by mutual respect." The representatives of two more concerns stated that they conducted their operations in accordance with industrial business standards which they feel to be ethical.

With four organizations, the responsibility for ethical conduct was considered to be an internal management problem. One of these companies incorporated general administrative policies as guiding principles in their General Standard Practice Instructions. The management of a second concern attempted to see that decisions at all levels were consistent with basic policies. A spokesman for the third firm explained that operation under its recognized informal code was accomplished through adherence to its statement of corporate objectives and management policy statements. The president of the fourth concern in this group gave the following reply to the questionnaire inquiry:

The code in use is merely a reflection of the attitude of top management. I as president endeavor to keep our standards extremely high with the long range as our objective in solving any immediate situation.
Of the other four AIA members providing a description of their operation under a recognized informal code, two merely stated that their code was helpful in their relationships with customers, employees, stockholders, the community and the general public. The informal code of the third concern was represented by its general policy to maintain the highest standards of employee relations. It was stated that this included paying among the highest wages in the industry, earning the reputation of being a good place to work, and offering reasonable security to employees. The informal code of the fourth concern was characterized by the slogan "Honest dealings with all." It was stated that management applied a "4-way test" to all decisions. The 4-way test consisted of posing the following questions:

1. Is it the truth?
2. Is it fair to all concerned?
3. Will it build goodwill and better friendship?
4. Will it be beneficial to all concerned?

Use of Company Codes in the Formulation of Company Policy

Only 6, or 21.43 per cent, of the cooperating AIA members claimed to use their company codes in the formulation of company policy. Three of these concerns indicated the major ways in which their codes are related to policy formulation. The representative of one of the firms stated that their code "reflects basic company honesty and integrity which is also reflected in policy statements, objectives and principal written procedures." The company having the set of Labor
Relations Principles as their code (previously described) maintained that they "serve as a frame of reference in which management makes specific industrial relations policies and decisions." A spokesman for the third AIA member asserted that its executive committee "has been consistent in its requirement that basic company policies be complied with at all times and under all conditions."

The survey disclosed that just 4, or 14.29 per cent, of the AIA members returning questionnaire data had made definite efforts to assure that their company codes or other statements of objectives or management policy were used in the formulation of company policy. In each case the responsibility for such assurance was centered in management. In one case it was accomplished through the forceful backing of the firm's executive committee. Another used frequent meetings wherein current problems are aired and discussed. With still another concern, the explanation was as follows:

Through line management, the Industrial Relations Department is held responsible for the administration of the policy. . . . Area Industrial Relations Superintendents and home office superiors analyze plant activities through receipt of written monthly reports, contact by telephone, and periodic plant visitations.

Value of Company Codes in Business Relations

Nine, or 32.14 per cent, of the 28 AIA members returning questionnaire data mentioned one or more types of business relations in which their company codes or other
statements of policy have been of greatest value. A summary of the types of business relations appears in Table 33. Since the companies usually indicated a number of the types of business relations, the percentages in this table do not total 100 per cent.

Table 33

Number and Percentage Distribution of 9 AIA Members Finding Company Codes of Value, by Types of Business Relations Mentioned

<table>
<thead>
<tr>
<th>Type of Business Relations</th>
<th>Number of Companies</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>9</td>
<td>100.00</td>
</tr>
<tr>
<td>Community</td>
<td>7</td>
<td>77.78</td>
</tr>
<tr>
<td>Customer</td>
<td>6</td>
<td>66.67</td>
</tr>
<tr>
<td>Government</td>
<td>6</td>
<td>66.67</td>
</tr>
<tr>
<td>Competitor</td>
<td>4</td>
<td>44.44</td>
</tr>
<tr>
<td>Public</td>
<td>4</td>
<td>44.44</td>
</tr>
<tr>
<td>Financial</td>
<td>4</td>
<td>44.44</td>
</tr>
<tr>
<td>Supplier</td>
<td>3</td>
<td>33.33</td>
</tr>
<tr>
<td>Owner</td>
<td>3</td>
<td>33.33</td>
</tr>
<tr>
<td>Dealer</td>
<td>2</td>
<td>22.22</td>
</tr>
</tbody>
</table>

It is interesting to note that all nine of the AIA members mentioned employee relations while this type of business relations was emphasized by 57.14 per cent of the GIF group and 81.08 per cent of the RETMA members. Customer relations, which was mentioned most frequently by both GIF (92.85%) and RETMA (83.78%) members, appears third in the AIA list. Community relations, rated second by the AIA members, being listed by 7 or 77.78 per cent of the firms, was mentioned by just 35.71 per cent of the GIF and 32.43 per cent of the RETMA group. Thus it appeared that the AIA
members had found their company codes or other statements of policy more helpful in their internal relationships with their work force and in their role as a corporate citizen of their respective communities.

Four of the nine companies providing information as to the type of business relations deriving the greatest benefit from their company codes, or other statements of policy, offered reasons for the areas of emphasis. In the first instance it was stressed that the firm's president is willing to document his views and promulgate them as rules. The spokesman for the second firm pointed out that their statement of policy "has brought into focus a philosophy which has been practiced for many years throughout the company." It was further stated that the policies served as a framework for future planning and were used to communicate to all employees the corporate beliefs in the major areas of labor relations. The representative of the third concern maintained that their company code helped them "to build an effective company serving a real field and doing a real job." The broad influence of ethical principles was emphasized by the fourth AIA member. In this case the following statement was made:

The Company Code of Ethics is of equal importance to our relations with all people. To do otherwise would be highly inconsistent and no code would actually be maintained.
Factors Influencing Adoption of a Formal Code

Four of the AIA members answered the questionnaire inquiry concerning the factors which were responsible for the adoption of a formalized code. Three of these were those firms which had already adopted codes. The fourth was considering doing so. The motivation for the adoption of one of the codes came from a "serious strike which indicated that management was taking for granted that their views were understood when in actuality they were not!" In the second case the company's executives believed the formalizing of labor relation principles would assist in continued development of good relations with the employees and the unions which represent them. The third company's action was prompted by the belief that "such a set of company policies was necessary to guide the thinking of personnel at all levels." The AIA member currently contemplating the adoption of a formalized code asserted that if this was accomplished it would be "to assure management of continuity of original concepts that made the company."

Provisions for Control of Operation under Codes

All three of the AIA members having their own codes were found to possess definite provisions for their enforcement. These firms, as well as the firm contemplating formalizing its informal code in the near future, indicated the methods used in checking compliance with policies based upon their codes. One concern used an indirect approach, through
evaluation of the individual performances of the various members of management. A second firm used written monthly reports by line management, contact by telephone, and periodic plant visitations. The other two concerns depended upon weekly meetings and discussion of current situations, and check by executive committee respectively.

Included in the questionnaire forms of three of the AIA members were descriptions of formal provisions for corrective action when code violations were discovered. When such a violation occurred in one company, management merely pointed out where the individual erred and carefully explained what his action should have been. The second firm was not very informative, so far as specific method was concerned, when its representative stated that "any inadvertent or intentional deviation from the principles established through these policies is dealt with promptly and effectively through established procedures." The provision made by the third firm was described as follows:

Executive appraisal has recently been introduced as a formal means of getting corrective action on all elements of a person's duties which, of course, includes proper interpretations and application of company policy.

Method of Publication of Company Codes

Various methods of publication were used by the AIA members. Three of the first posted their codes on office walls. Publication in convenient booklet form was also utilized by three concerns. A number of supplementary
methods were also utilized. In an attempt to achieve wide coverage, one of the firms distributed copies of procedures to each department and forwarded individual letters from the president to interested parties. Another company worked its code into its training courses and incorporated its principles into periodic labor-management meetings at the plant level. Verbal communication was relied upon for code publication in one instance. The familiar reliance upon deed rather than word, noted at several points previously, was again in evidence when the spokesman for one AIA member gave "permeation of philosophy by reason of presidential example" for its method of publication.

Opinions As To Value and Effectiveness of Formalized Codes

While the percentage of AIA members having formal codes was less than the JETMA and only slightly larger than the GIF groups, the AIA managements seemed to have more favorable opinions concerning the value and effectiveness of formalized codes. Of the 11 AIA members furnishing such opinions, 5 or 45.46 per cent fully favored and another 2, or 18.18 per cent, favored with some qualification the reduction of ethical codes to writing. Only two firms voiced unfavorable opinions, the remaining two being somewhat doubtful.

Admitting that they had not arrived at a formal code for themselves, one concern was still very enthusiastic.
Excerpts from the statement by this firm's spokesman appear below:

I believe 100% in a formalized code... It is of unquestionable value in giving value in giving one's company a solid strong personality of strength which will help every phase of the operation... It welds associates and customers into a team, one relying on the other.

In regard to the method of publication, this firm's representative went on to state that "how the code manifests itself is incidental so long as it does the job." Standard Practice Instructions were considered by another of the AIA members as "essential to the efficient operation of a large company." Two of the other favorable opinions were as follows:

A company code would insure more uniform acceptance behavior from everyone involved in the maintenance of any given relationship. Would provide basic statement which, in the absence of more particular written policy, should help anyone deduce what he should do in any given situation.

We feel that such a set of company policies is necessary to guide the thinking of all (name of corporation), and we further feel that the policies themselves and procedures concerning the administration thereof should be well-known to management personnel of all levels and to other employees in all departments of the organization.

As indicated above, two of the companies qualified, to some degree, their favorable opinion. In one instance it was admitted that formalized statements of policy were essential (to meet labor movement contentions, etc.) after a company's founder has passed from the scene. However, it
was maintained that such codes were unnecessary "with old employees under founder's direction." The other firm qualifying its position offered the following opinion:

Believe formalized code has a place where conditions are such that standard approach is more effective than case-by-case approach. A formal code does not seem sound when exceptions to it or variations from it can be expected in the considerable percentage of applications.

In the "doubtful" category, lack of experience was mentioned by one firm, while the other took the position that "the effectiveness of a formalized code of ethics is only as good as the actual past practice."

The two companies expressing an unfavorable opinion regarding the value and effectiveness of formalized codes frankly admitted that their managements commonly made decisions on the basis of expediency. "We use whatever appears expedient to introduce and stress some particular theme" was the explanation given by the representative of one of the firms.

Comparative Analysis—Age of Concern

The 28 cooperating AIA firms fell equally into two categories; those in operation 20 years or less, and those that have been in business for over 20 years. An analysis of the questionnaire data for the two groups did not reveal any striking variations. Two of the three formal codes were found in the "older" age group. Recognized informal codes were nearly equally divided with 8 in the older, and 7 in
the younger group. Four, or 28.57 per cent, of the older group claimed to use their company code or other statement of policy in the formulation of company policy, while only two of the younger concerns did so. The companies in the 1-20 year age group were found to have a slight edge so far as possession of formal provisions for enforcement was concerned. Two of these firms had such a provision, while only one of the older group did. The situation was just reversed when formal provision for corrective action was considered. Two of the older and just one of the younger AIA members had made such a provision. It was interesting to note that the firm in the younger group possessing one of the three formal codes was more active in publicizing its code than were the two companies in the older group having formalized codes.

Comparative Analysis--Number of Employees

Some interesting variations were noted when the AIA questionnaire data was analyzed from the viewpoint of organizational size (as measured by the number of workers employed). Two of the AIA members returning questionnaires failed to state the size of their labor force. Of the remaining 26 firms, 14 were found to employ from 1-5000 employees and 12 concerns employed more than 5000 persons.

All three of the formalized AIA codes were found in the firms with over 5000 employees. However, of the 14 recognized informal codes reported, 8 came from the smaller firms. The three AIA firms having codes of their own and
the concern about to adopt such a statement of policy (all companies employing over 5000 employees) claimed they used their codes in the formulation of company policy. While three of the larger companies had adopted formal codes only two firms possessed enforcement provisions for policies based upon such codes, and formal provisions for corrective action once code violations were discovered.

Thus, the size of the AIA member companies as measured by the number of employees, seemed to be more responsible for variations in the adoption, use and control of formalized codes or other statements of policy than the number of years the firms had been in operation. In neither case, however, were the variations of great significance except in the instances specifically cited above.

Summary

The Aircraft Industries Association (AIA), a relatively new organization, has neither a formalized code of its own nor does it operate under a set of Federal Trade Commission Trade Practice Rules. Of the 90 AIA members surveyed, 35 replied by letter and 28 returned completed questionnaires. The majority of the AIA members were found to have been in business for less than 30 years, employed at least 1000 workers, and were incorporated.

Only three of the participating AIA members (each employing over 5000 workers) had adopted formalized policy statements of their own. The factors which influenced their
adoption varied. In one instance, a serious strike had prompted the firm to go on record with its views, particularly in the labor relations area. Other factors included the provision of a guide for the thinking of supervisory personnel, and an attempt to assure continuity of original managerial concepts. A number of the AIA companies without formalized codes had not felt the need for putting their policies into writing. Other reasons included the holding of each department head responsible for ethical conduct, possession of good communication in a closely-knit organization, and the fact that (in three instances) 100 per cent of their contracts were with the Department of Defense as government contractors. Over half of the cooperating AIA members claimed to operate under recognized informal codes. A number of them considered the responsibility for ethical conduct to be an internal management problem.

Only six, or 21.43 per cent, of the cooperating AIA members claimed to use their company codes (formal and informal) in the formulation of company policy. Just four, or 14.29 per cent, had taken definite steps to assure the maintenance of this code-policy relationship. The AIA codes were found to be most useful in the areas of employee, community, customer and governmental relations. Two of the three AIA members which had adopted formalized codes had made definite provisions for checking compliance and taking corrective measures when code violations were discovered.
Of the eleven AIA members furnishing opinions regarding the value and effectiveness of formalized codes, five indicated full support, and two others favored their use with certain reservations. Only two of the firms voiced opinions which were entirely unfavorable, the other two questioning their advantages. Thus a higher percentage of the AIA members expressed a positive reaction to the formalization of ethical codes and other statements of policy than was the case with either the GIF or RETMA association memberships.
CHAPTER X

SUMMARY AND COMPARATIVE ANALYSIS

This section is designed to enable the reader to obtain a comparison of the types of business relations emphasized in formalized codes at the trade association and member company levels, and an over-all picture of the replies offered to the inquiries on the questionnaire at the company level.

Comparison of Codes at Association and Company Levels

It has already been pointed out that the formalized codes or other statements of policy at the company level were found for the most part, to be more brief and narrower in scope than those adopted by the trade associations. The forms taken by the company codes have been described previously. The forms taken by the association codes were too varied to categorize easily since the code statements were often incorporated into statements of business conduct or general policy. However, the majority of them were presented as one-page documents headed "Code of Ethics" and designed to be posted in company offices.

As indicated in the previous chapters, the codes at both the association and company levels were analyzed from
the standpoint of the types of business relations mentioned. Table 34 provides a comparison of the 38 trade association codes (including the 10 sets of trade practice rules) and the 11 formalized codes or other statements of policy furnished by the members of GIF, RETMA, and AIA (the three trade associations selected for further study). Since the

Table 34

Number and Percentage Distribution of Types of Business Relations Mentioned in 38 Trade Association and 11 Member Company Codes by Type of Business Relation

<table>
<thead>
<tr>
<th>Type of Business Relation</th>
<th>No. Times Mentioned</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>T. A.</td>
<td>Company</td>
</tr>
<tr>
<td>Competitor</td>
<td>430</td>
<td>8</td>
</tr>
<tr>
<td>Customer</td>
<td>304</td>
<td>38</td>
</tr>
<tr>
<td>Dealer</td>
<td>299</td>
<td>9</td>
</tr>
<tr>
<td>Public</td>
<td>261</td>
<td>10</td>
</tr>
<tr>
<td>Owner</td>
<td>52</td>
<td>14</td>
</tr>
<tr>
<td>Supplier</td>
<td>48</td>
<td>8</td>
</tr>
<tr>
<td>Employee (Labor)</td>
<td>38</td>
<td>64</td>
</tr>
<tr>
<td>Community</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>Governmental</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Financial</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>68</td>
</tr>
<tr>
<td>Total</td>
<td>1476</td>
<td>255</td>
</tr>
</tbody>
</table>

codes at the association level were found to be much more detailed in form, and the number of codes in each group is not equal; the data indicating number of times mentioned in Table 34 is of value only to indicate the variance in scope and detail. For comparative purposes, the percentage data is more useful.

In their emphasis upon different types of business relations, the association and company codes reflected the
areas of greater interest to each of the two groups. Association codes, giving primary consideration to competitor relations, sought to set forth some "ground rules" for the various relationships among the association memberships. Likewise, dealer, public, and customer relations received considerable attention. At the association level, it was not surprising to find little mention of financial relations. However, with the increasing role played by the various governmental units in business today, it was rather unexpected to find that even the more recently adopted or revised codes failed to deal with this type of business relations to any appreciable degree. Enforcement relations, comprising .80 per cent of the content of the association codes, were not found in the codes at the company level. As noted in the previous chapters dealing with the survey at the company level, information pertaining to the enforcement of code provisions was obtained through questionnaire inquiries.

Two of the more detailed company codes were comprised primarily of statements of policy regarding managerial interrelationships at both the administrative and supervisory levels. Such provisions related to internal communications, record and report writing, unity of command, the exception principle, etc. Collectively, these provisions (which were termed managerial relations in previous sections of this report) made up, for the most part, the 26.67 per cent of the content of the company codes listed as "other" in Table 34.
Of the other types of business relations, employee relations was treated most frequently in the company codes. Thus the company codes stressed internal relationships. Customer relations comprised 14.9 per cent of the provisions with the other types of business relations receiving approximately equal attention.

**Comparative Analysis of Questionnaire Data**
(At company level)

In the succeeding discussions, as previously, references to the Gray Iron Founders' Society, Inc. will be designated as GIF, Radio-Electronics-Television Manufacturers Association as RETMA, and the Aircraft Industries Association as AIA.

Table 35 summarizes the number of companies surveyed, the number of concerns replying, and the number of member firms supplying questionnaire data. Of the 959 companies

<table>
<thead>
<tr>
<th>Coverage of and Participation in Management Code Survey</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies Surveyed</td>
<td>516</td>
<td>353</td>
<td>90</td>
<td>959</td>
</tr>
<tr>
<td>Number of Companies Sending Replies</td>
<td>93</td>
<td>83</td>
<td>35</td>
<td>211</td>
</tr>
<tr>
<td>Number Returning Questionnaire Data</td>
<td>77</td>
<td>70</td>
<td>28</td>
<td>175</td>
</tr>
</tbody>
</table>
surveyed, the 211 replies constituted a 22 per cent return. Completed questionnaires were returned by 175 or 82.94 per cent of the 211 replying.

When the pilot study, made up of 41 leading American Corporations, is taken into consideration, a total of 1000 firms were surveyed. Replies were received from 236 or 23.6 per cent of the companies with 187 or 79.24 per cent of them returning questionnaires.

**Number of Years in Operation**

As previously noted in this report, the members of the Gray Iron Founders' Society had been, on the whole, in business for a longer period than the majority of the RETMA and AIA members. In totaling the figures for the three trade associations, 48 per cent of the cooperating member companies were found to have been in operation 30 years or less. Table 36 provides a full breakdown of the 175 companies from the three associations.

**Number of Workers Employed**

Taken together, 45.15 per cent of the three associations' members employed 200 or fewer workers. The very small concerns were concentrated in the Gray Iron Founders' Society where 22 or 28.57 per cent of the firms were made up of 50 or fewer individuals. Another 17 or 22.08 per cent fell in the 51-100 employee category. Thus over half of the GIF group employ 1-100 individuals (compared to 27.14 per cent of the
Table 36

Number and Percentage Distribution of 175 Members of GIF, RETMA, and AIA by Number of Years in Operation

<table>
<thead>
<tr>
<th>Number of Years in Operation</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 - 10</td>
<td>4</td>
<td>19</td>
<td>7</td>
<td>30</td>
</tr>
<tr>
<td>11 - 20</td>
<td>3</td>
<td>10</td>
<td>7</td>
<td>20</td>
</tr>
<tr>
<td>21 - 30</td>
<td>10</td>
<td>18</td>
<td>6</td>
<td>34</td>
</tr>
<tr>
<td>31 - 40</td>
<td>14</td>
<td>8</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>41 - 50</td>
<td>11</td>
<td>1</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>51 - 60</td>
<td>10</td>
<td>4</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>61 - 70</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>71 - 80</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>81 - 90</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>91 -100</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Over 100</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>No Answer</td>
<td>1</td>
<td>7</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>70</td>
<td>28</td>
<td>175</td>
</tr>
</tbody>
</table>

Percentage Distribution

<table>
<thead>
<tr>
<th>Number of Years in Operation</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 10</td>
<td>5.19</td>
<td>27.14</td>
<td>25.00</td>
<td>17.41</td>
</tr>
<tr>
<td>11 - 20</td>
<td>3.90</td>
<td>14.29</td>
<td>25.00</td>
<td>11.43</td>
</tr>
<tr>
<td>21 - 30</td>
<td>12.99</td>
<td>25.71</td>
<td>21.43</td>
<td>19.43</td>
</tr>
<tr>
<td>31 - 40</td>
<td>18.18</td>
<td>11.43</td>
<td>3.57</td>
<td>13.14</td>
</tr>
<tr>
<td>41 - 50</td>
<td>14.29</td>
<td>1.43</td>
<td>7.14</td>
<td>8.00</td>
</tr>
<tr>
<td>51 - 60</td>
<td>12.99</td>
<td>5.71</td>
<td>3.57</td>
<td>8.57</td>
</tr>
<tr>
<td>61 - 70</td>
<td>7.09</td>
<td>2.86</td>
<td>10.72</td>
<td>6.86</td>
</tr>
<tr>
<td>71 - 80</td>
<td>6.49</td>
<td>0.00</td>
<td>0.00</td>
<td>2.86</td>
</tr>
<tr>
<td>81 - 90</td>
<td>5.19</td>
<td>1.43</td>
<td>3.57</td>
<td>3.43</td>
</tr>
<tr>
<td>91 -100</td>
<td>2.60</td>
<td>0.00</td>
<td>0.00</td>
<td>1.14</td>
</tr>
<tr>
<td>Over 100</td>
<td>7.79</td>
<td>0.00</td>
<td>0.00</td>
<td>3.43</td>
</tr>
<tr>
<td>No Answer</td>
<td>1.30</td>
<td>10.00</td>
<td>0.00</td>
<td>4.57</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>
RETMA and 3.57 per cent of the AIA members furnishing such data). Despite the preponderance of very small organizations in the GIF association, six firms reported over 7000 employees, one having in excess of 35,000. None of the RETMA companies were found to have over 6000 workers while eleven of the AIA members had organizations exceeding this number. The complete breakdown of the size of the member companies is shown in Table 37 (number of companies) and Table 38 (percentage distribution).

Table 37
Number of Workers Employed by 175 GIF, RETMA, and AIA Member Companies

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 50</td>
<td>22</td>
<td>11</td>
<td>1</td>
<td>34</td>
</tr>
<tr>
<td>51 - 100</td>
<td>17</td>
<td>8</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>101 - 200</td>
<td>11</td>
<td>7</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>201 - 300</td>
<td>4</td>
<td>6</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>301 - 400</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>401 - 500</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>501 - 1,000</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>1,001 - 2,000</td>
<td>0</td>
<td>7</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>2,001 - 3,000</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>3,001 - 4,000</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>4,001 - 5,000</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>5,001 - 10,000</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>10,001 - 20,000</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>20,001 - 30,000</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>30,001 - 40,000</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>40,001 - 50,000</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>50,001 - 60,000</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>60,001 - 70,000</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>No Answer</td>
<td>2</td>
<td>8</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>70</td>
<td>28</td>
<td>175</td>
</tr>
</tbody>
</table>
Table 38

Percentage Distribution of 175 GIF, RETMA, And AIA Member Companies by Number of Workers Employed

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 50</td>
<td>28.56</td>
<td>15.71</td>
<td>3.57</td>
<td>19.43</td>
</tr>
<tr>
<td>51 - 100</td>
<td>22.08</td>
<td>11.43</td>
<td>0.00</td>
<td>14.29</td>
</tr>
<tr>
<td>101 - 200</td>
<td>14.29</td>
<td>10.00</td>
<td>7.14</td>
<td>11.43</td>
</tr>
<tr>
<td>201 - 300</td>
<td>5.19</td>
<td>8.57</td>
<td>3.57</td>
<td>6.29</td>
</tr>
<tr>
<td>301 - 400</td>
<td>6.49</td>
<td>7.14</td>
<td>3.57</td>
<td>6.29</td>
</tr>
<tr>
<td>401 - 500</td>
<td>1.30</td>
<td>4.29</td>
<td>3.57</td>
<td>2.86</td>
</tr>
<tr>
<td>501 - 1,000</td>
<td>7.79</td>
<td>8.57</td>
<td>7.14</td>
<td>8.00</td>
</tr>
<tr>
<td>1,001 - 2,000</td>
<td>0.00</td>
<td>10.00</td>
<td>7.14</td>
<td>5.14</td>
</tr>
<tr>
<td>2,001 - 3,000</td>
<td>1.30</td>
<td>1.43</td>
<td>10.72</td>
<td>2.86</td>
</tr>
<tr>
<td>3,001 - 4,000</td>
<td>1.30</td>
<td>4.29</td>
<td>3.57</td>
<td>2.86</td>
</tr>
<tr>
<td>4,001 - 5,000</td>
<td>1.30</td>
<td>1.43</td>
<td>0.00</td>
<td>1.14</td>
</tr>
<tr>
<td>5,001 - 10,000</td>
<td>3.90</td>
<td>5.71</td>
<td>3.57</td>
<td>5.14</td>
</tr>
<tr>
<td>10,001 - 20,000</td>
<td>1.30</td>
<td>0.00</td>
<td>7.15</td>
<td>1.71</td>
</tr>
<tr>
<td>20,001 - 30,000</td>
<td>1.30</td>
<td>0.00</td>
<td>10.72</td>
<td>2.29</td>
</tr>
<tr>
<td>30,001 - 40,000</td>
<td>1.30</td>
<td>0.00</td>
<td>0.00</td>
<td>.57</td>
</tr>
<tr>
<td>40,001 - 50,000</td>
<td>0.00</td>
<td>0.00</td>
<td>10.72</td>
<td>1.71</td>
</tr>
<tr>
<td>50,001 - 60,000</td>
<td>0.00</td>
<td>0.00</td>
<td>7.14</td>
<td>.57</td>
</tr>
<tr>
<td>60,001 - 70,000</td>
<td>0.00</td>
<td>0.00</td>
<td>3.57</td>
<td>.57</td>
</tr>
<tr>
<td>No Answer</td>
<td>2.60</td>
<td>11.43</td>
<td>7.14</td>
<td>6.85</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Type of Business Organization

The corporate form of business organization outweighed the other forms in each of the three trade associations studied. A numerical and percentage distribution summary is shown in Table 39.

Possession of Formalized Codes

Very few of the member companies in each of the three associations studied were found to have adopted formalized
Table 39
Number and Percentage Distribution of 175 GIF, RETMA, and AIA Member Companies by Type of Business Organization

<table>
<thead>
<tr>
<th>Type of Business Organization</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietorship</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Partnership</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Corporation</td>
<td>73</td>
<td>65</td>
<td>26</td>
<td>164</td>
</tr>
<tr>
<td>Not Indicated</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>77</strong></td>
<td><strong>70</strong></td>
<td><strong>28</strong></td>
<td><strong>175</strong></td>
</tr>
</tbody>
</table>

Percentage Distribution

<table>
<thead>
<tr>
<th>Type of Business Organization</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietorship</td>
<td>1.30</td>
<td>1.43</td>
<td>0.00</td>
<td>1.14</td>
</tr>
<tr>
<td>Partnership</td>
<td>3.90</td>
<td>4.29</td>
<td>7.14</td>
<td>4.57</td>
</tr>
<tr>
<td>Corporation</td>
<td>94.80</td>
<td>92.85</td>
<td>92.86</td>
<td>93.72</td>
</tr>
<tr>
<td>Not Indicated</td>
<td>0.00</td>
<td>1.43</td>
<td>0.00</td>
<td>0.57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Statements of policy. RETMA firms with 18.57 per cent led with AIA and GIF following in order. This information is summarized in Table 40. Thus taken together, only 12 per cent of the 175 member companies were found to have formalized codes or other statements of policy. Eleven of the 21 companies having formalized codes cooperated in making copies of their codes available for study. This number was made up of 4 of the 5 GIF, 5 of the 13 RETMA, and 2 of the 3 AIA member firms having codes.
Table 40
Number and Percentage Distribution of 175 GIF, RETMA, and AIA Member Companies Indicating Possession of Formalized Codes

<table>
<thead>
<tr>
<th>Type of Responses</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have Code</td>
<td>5</td>
<td>13</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>Do Not Have Code</td>
<td>67</td>
<td>55</td>
<td>22</td>
<td>144</td>
</tr>
<tr>
<td>No Response</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>70</td>
<td>28</td>
<td>175</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Responses</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have Code</td>
<td>6.49</td>
<td>18.57</td>
<td>10.71</td>
<td>12.00</td>
</tr>
<tr>
<td>Do Not Have Code</td>
<td>87.02</td>
<td>78.57</td>
<td>78.58</td>
<td>82.29</td>
</tr>
<tr>
<td>No Response</td>
<td>6.49</td>
<td>2.86</td>
<td>10.71</td>
<td>5.71</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Operation under Recognized Informal Code

Informal codes were found in much greater numbers among each of the three trade association memberships (compared to formalized codes). While the difference among the associations was small, the AIA members were found to be most active in the use of informal codes. Their position in relation to the RETMA and GIF Groups, which followed in that order, is shown in Table 41. Thus, while only 12 per cent of the member firms of the three associations have adopted formalized codes, slightly over half of the concerns do operate under recognized informal codes.
Table 41

Number and Percentage Distribution of 175 GIF, RETMA, and AID Member Companies Indicating Possession of Recognized Informal Codes

<table>
<thead>
<tr>
<th>Type of Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>AID</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Informal Code</td>
<td>38</td>
<td>35</td>
<td>15</td>
<td>88</td>
</tr>
<tr>
<td>No Informal Code</td>
<td>17</td>
<td>17</td>
<td>7</td>
<td>41</td>
</tr>
<tr>
<td>No Response</td>
<td>22</td>
<td>18</td>
<td>6</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>70</td>
<td>28</td>
<td>175</td>
</tr>
</tbody>
</table>

|                        | Percentage Distribution |       |       |       |
| Have Informal Code     | 49.35 | 50.00 | 53.57 | 50.29 |
| No Informal Code       | 22.08 | 24.29 | 25.00 | 23.42 |
| No Response            | 28.57 | 25.71 | 21.43 | 26.29 |
| Total                  | 100.00| 100.00| 100.00| 100.00|

Use of Association or Industry Codes in Formulation of Company Policy

By the survey questionnaire it was sought to determine whether the formalized association code, in the case of the GIF, and the FTC Trade Practice Rules, in the case of the RETMA group, were used in the formulation of company policy. It was found that nearly twice the number of GIF members (compared to the RETMA group) used their codes in this way. Thus it appeared that in these particular cases, in any event, the association code proved more helpful with the formulation of company policy than the trade practice rules. A comparison of the two groups appears in Table 42.
### TABLE 42

**Number and Percentage Distribution of 147 GIF and RETMA Member Companies Indicating Use of Industry Codes in Formulation of Company Policy**

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use Code</td>
<td>31</td>
<td>16</td>
<td>47</td>
</tr>
<tr>
<td>Do Not Use Code</td>
<td>10</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>No Response</td>
<td>36</td>
<td>40</td>
<td>76</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>77</td>
<td>70</td>
<td>147</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage Distribution</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Code</td>
<td>40.26</td>
<td>22.86</td>
<td>31.97</td>
</tr>
<tr>
<td>Do Not Use Code</td>
<td>12.99</td>
<td>20.00</td>
<td>16.33</td>
</tr>
<tr>
<td>No Response</td>
<td>46.75</td>
<td>57.14</td>
<td>51.70</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Use of Company Codes in Formulation of Company Policy**

While nearly a third of the members of the GIF and RETMA groups (taken together) used their association or industry codes in the formulation of company policy, less than a fourth used their company codes or other statements of policy for this purpose. It was very interesting to note that while nearly twice as many GIF members (compared to RETMA) used their industry codes in company policy formulation, more than twice the number of RETMA firms (compared to GIF) made such use of their company codes. This may be explained, in part, by the fact that many of the GIF members...
used their association code as their own company codes, and a number of the RETMA firm managements had not found the FTC Trade Practice Rules as adaptable as an association's "own" code as a basis for the formulation of company policy. Table 43 gives the breakdown for the 147 GIF and RETMA firms regarding use of company codes.

Table 43

Number and Percentage Distribution of 147 GIF and RETMA Member Companies Indicating Use of Company Codes in Formulation of Company Policy

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Companies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use Code</td>
<td>10</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Do Not Use Code</td>
<td>9</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>No Response</td>
<td>58</td>
<td>42</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>77</td>
<td>70</td>
<td>147</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage Distribution</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Code</td>
<td>12.99</td>
<td>28.57</td>
<td>20.41</td>
</tr>
<tr>
<td>Do Not Use Code</td>
<td>11.69</td>
<td>11.43</td>
<td>11.56</td>
</tr>
<tr>
<td>No Response</td>
<td>75.32</td>
<td>60.00</td>
<td>68.03</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

In the case of the AIA members, 21.43 per cent were found to use their company codes in the formulation of their company policy. Data for the 28 AIA members is shown in Table 44.
Table 44

Number and Percentage Distribution of 28 AIA Member Companies Indicating Use of Company Codes in the Formulation of Company Policy

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>Number</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use Code</td>
<td>6</td>
<td>28.57</td>
</tr>
<tr>
<td>Do Not Use Code</td>
<td>3</td>
<td>11.43</td>
</tr>
<tr>
<td>No Response</td>
<td>19</td>
<td>60.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Provisions for Enforcement of Industry Codes

There seemed to be quite a reluctance among the association members to answer the inquiry regarding enforcement, since less than half chose to do so. Only two of the GIF and four of the RETMA members claimed to have formal provisions for the enforcement of their association code and industry trade practice rules respectively. Table 45 provides the number and percentage distribution of the GIF and RETMA members on this point.

Provisions for Enforcement of Company Codes

Just as a larger percentage of the RETMA members were found using their codes in the formulation of company policy, this group led the others in having made provisions for the enforcement of their company codes. Of course the RETMA members reported the adoption of a considerably larger number
Table 45

Number and Percentage Distribution of 147 GIF and RETMA Member Companies Indicating Possession of Provisions for Enforcement of Industry Codes

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Provision</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>29</td>
<td>20</td>
<td>49</td>
</tr>
<tr>
<td>No Response</td>
<td>46</td>
<td>46</td>
<td>92</td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>70</td>
<td>147</td>
</tr>
</tbody>
</table>

Percentage Distribution

<table>
<thead>
<tr>
<th></th>
<th>GIF</th>
<th>RETMA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have Provision</td>
<td>2.60</td>
<td>5.71</td>
<td>4.08</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>37.66</td>
<td>28.58</td>
<td>33.33</td>
</tr>
<tr>
<td>No Response</td>
<td>59.74</td>
<td>65.71</td>
<td>62.59</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Enforcement data at the company level are shown in Table 46.

Possession of Formal Provisions for Corrective Action

Taken together, the same percentage of member companies had formal provisions for corrective action when code violations were discovered as had provisions for enforcement of company codes. However, the AIA members were the only group being consistent in both cases. A larger percentage of the GIF firms had provided for corrective action while more of the RETMA firms had adopted provisions for enforcement of their company codes. Since such a large proportion of the
Table 46

Number and Percentage Distribution of 175 GIF, RETMA and AIA Member Companies Indicating Possession of Provisions for Enforcement of Company Codes

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Companies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have Provision</td>
<td>1</td>
<td>12</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>13</td>
<td>14</td>
<td>4</td>
<td>31</td>
</tr>
<tr>
<td>No Response</td>
<td>63</td>
<td>44</td>
<td>21</td>
<td>128</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>77</td>
<td>70</td>
<td>28</td>
<td>175</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percentage Distribution</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Have Provision</td>
<td>1.30</td>
<td>17.14</td>
<td>10.71</td>
<td>9.14</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>16.88</td>
<td>20.00</td>
<td>14.29</td>
<td>17.72</td>
</tr>
<tr>
<td>No Response</td>
<td>81.82</td>
<td>62.86</td>
<td>75.00</td>
<td>73.14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Association members submitting questionnaires chose not to indicate whether they had made any provision for corrective action, it might be assumed that many of those not replying to the inquiry had likewise failed to make such a provision. The data pertaining to formal provisions for correction action is summarized in Table 47.

Type of Business Relations Mentioned in Codes

In previous chapters of this report the types of business relations treated in the ethical codes, or other statements of policy, of GIF, RETMA, and AIA (both at the industry and company levels) are taken up in the discussion.
Table 47

Number and Percentage Distribution of 175 GIF, RETMA, and AIA Member Companies Indicating Possession of Formal Provisions for Corrective Action

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>70</td>
<td>28</td>
<td>175</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have Provision</td>
<td>5</td>
<td>8</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>26</td>
<td>20</td>
<td>2</td>
<td>48</td>
</tr>
<tr>
<td>No Response</td>
<td>46</td>
<td>42</td>
<td>23</td>
<td>111</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Questionnaire Response</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have Provision</td>
<td>6.49</td>
<td>11.43</td>
<td>10.71</td>
<td>9.14</td>
</tr>
<tr>
<td>Do Not Have Provision</td>
<td>33.77</td>
<td>28.57</td>
<td>7.14</td>
<td>27.43</td>
</tr>
<tr>
<td>No Response</td>
<td>59.74</td>
<td>60.00</td>
<td>82.15</td>
<td>63.43</td>
</tr>
</tbody>
</table>

Of the survey of the respective associations. At this point, however, this information is summarized in Table 48. It is noted that the industry codes placed the most emphasis upon customer, competitor, and dealer relations. The company codes, on the other hand, gave considerable attention to employee and internal managerial relations.

Observations Based upon Age of Concern

Of the 175 GIF, RETMA and AIA members returning questionnaires, 167 indicated the number of years they had been in operation. Of this latter number, 84 were found to have been in business for 30 years or less and 83 for a
# Table 1.8

Number and Percentage Distribution of Types of Business Relations Referred to in GIF, RETMA, and AIA Codes, by Type of Code, by Number of Times Mentioned

<table>
<thead>
<tr>
<th>Type of Code</th>
<th>Types of Business Relations</th>
<th>Number of Times Mentioned</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customer</td>
<td>Dealer</td>
<td>Competitor</td>
</tr>
<tr>
<td>GIF: Assoc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Code</td>
<td></td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>(l) Company</td>
<td></td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Codes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RETMA: T.P.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rules</td>
<td></td>
<td>59</td>
<td>9</td>
</tr>
<tr>
<td>(5) Company</td>
<td></td>
<td>22</td>
<td>6</td>
</tr>
<tr>
<td>Codes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIA:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Company</td>
<td></td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Codes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GIF: Assoc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Code</td>
<td></td>
<td>30.77</td>
<td>34.62</td>
</tr>
<tr>
<td>Codes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RETMA: T.P.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rules</td>
<td></td>
<td>68.60</td>
<td>10.47</td>
</tr>
<tr>
<td>(5) Company</td>
<td></td>
<td>12.02</td>
<td>3.28</td>
</tr>
<tr>
<td>Codes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIA:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Company</td>
<td></td>
<td>8.33</td>
<td>41.67</td>
</tr>
<tr>
<td>Codes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
longer period of time. Questionnaire data for these two nearly equal groups was analyzed to disclose possible differences.

More of the younger firms (15.48%) had adopted formalized codes of their own (9.64 per cent of the concerns with over 30 years of service having them). Such a difference was not noted in the case of operation under recognized informal codes. Here, about half of each of the age groups claimed to use such a code. When it came to the use of codes in the formulation of company policy, the two groups varied in regard to industry and company codes. Only a small difference was noted in the case of industry codes where 36 per cent of the older, compared to 31.25 per cent of the younger concerns found their association code or industry trade practice rules helpful in formulating company policy. A more significant variation was noted in the case of company codes. Here 26.19 per cent of the younger, compared to 16.87 per cent of the older, member firms indicated a direct relationship between their company codes and company policy. Member companies in the 1-30 year group were also found to be more active in making formal provision for the enforcement of their codes and for corrective action when code violations occur. The only difference noted in the method of code publication was that the younger firms placed greater emphasis upon the distribution of their codes in booklet forms.
Variations Related to Size of Firm

When the 163 association members providing information as to the size of their labor force were categorized, 79 firms were found to employ 200 or fewer individuals, while 84 concerns had a larger number on their payrolls. Although a slightly larger percentage (14.29% compared to 11.39%) of the larger firms had adopted formalized codes, approximately 50 per cent of both groups indicated operation under a recognized informal code. Therefore, the younger (1-30 years) but larger (over 300 employees) were found to have more formalized codes at the company level.

Companies with 200 or fewer employees were found to use their industry codes in the formulation of company policy somewhat more than the larger concerns (39.47% compared to 26.28%). When it came to using company codes for this purpose, the situation was reversed, with 25 per cent of the larger and 17.72 per cent of the smaller firms being involved.

Compared with the firms using their codes in the formulation of company policy, a much smaller percentage of them had made provision for the enforcement of their codes. A slightly higher percentage (4.92%) of the larger concerns (compared to 3.95% of the smaller) had such provisions relating to their industry codes. Enforcement provisions for codes at the company level were possessed by a somewhat larger percentage of both groups (11.90 per cent of the
smaller concerns). The difference between the activity of the two groups in providing for corrective action when code violations were discovered was quite small. Such provisions had been made by 10.13 per cent of the smaller and 9.52 per cent of the larger organizations.

No significant differences were noted in the method of publication of the industry and company codes between the two groups of members, as measured by the number of employees.

Summary of Opinions As To Value and Effectiveness of Formalized Codes of Ethics

In the discussion of the questionnaire data received from the GIF, RETMA, and AIA memberships, examples were given illustrating the thinking of the respective managements regarding the value and effectiveness of formalized codes of ethics. When the various opinions are classified into the four categories: favor, favor with some qualification, do not favor, and doubtful; some very interesting results appeared. This information, in summary form, appears in Table 49.

It was rather surprising to find the highest percentage of favorable opinions among the members of AIA (operating under neither an association code nor a set of trade practice rules) while the lowest percentage of positive viewpoints were noted among the members of GIF which has its own formalized code. Forty per cent of the GIF members offering their evaluation of formalized codes clearly did
Table 49
Number and Percentage Distribution of 100 GIF, RETMA, and AIA Member Firms Providing Opinions as to the Value and Effectiveness of Formalized Codes by Type of Opinion Held

<table>
<thead>
<tr>
<th>Type of Opinion</th>
<th>GIF</th>
<th>RETMA</th>
<th>AIA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Favor</td>
<td>12</td>
<td>16</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td>Favor with Qualification</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Total (Positive)</td>
<td>14</td>
<td>22</td>
<td>7</td>
<td>43</td>
</tr>
<tr>
<td>Do Not Favor</td>
<td>18</td>
<td>14</td>
<td>2</td>
<td>34</td>
</tr>
<tr>
<td>Doubtful</td>
<td>13</td>
<td>8</td>
<td>2</td>
<td>23</td>
</tr>
<tr>
<td>Total (Negative)</td>
<td>31</td>
<td>22</td>
<td>4</td>
<td>57</td>
</tr>
<tr>
<td>Total (All)</td>
<td>45</td>
<td>44</td>
<td>11</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Opinion</th>
<th>Percentage Distribution</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Favor</td>
<td>26.67</td>
<td>36.36</td>
<td>45.46</td>
<td>33.00</td>
</tr>
<tr>
<td>Favor with Qualification</td>
<td>4.44</td>
<td>13.64</td>
<td>18.18</td>
<td>10.00</td>
</tr>
<tr>
<td>Total (Positive)</td>
<td>31.11</td>
<td>50.00</td>
<td>63.64</td>
<td>43.00</td>
</tr>
<tr>
<td>Do Not Favor</td>
<td>40.00</td>
<td>31.82</td>
<td>18.18</td>
<td>34.00</td>
</tr>
<tr>
<td>Doubtful</td>
<td>28.89</td>
<td>18.18</td>
<td>18.18</td>
<td>23.00</td>
</tr>
<tr>
<td>Total (Negative)</td>
<td>68.89</td>
<td>50.00</td>
<td>36.36</td>
<td>57.00</td>
</tr>
<tr>
<td>Total (All)</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

not favor their use, while another 28.89 per cent questioned their value and effectiveness. The RETMA members were divided equally between positive and negative points of view. When the memberships of the three associations are considered together, it is interesting to note that a third held an
entirely positive opinion and a like percentage a wholly negative one. With the remaining third, who were in doubt, the percentage leaning toward the negative viewpoint was over twice that approaching the favorable (23 per cent compared to 10 per cent). Thus, it was found that less than half (43 per cent) of the association members answering this questionnaire inquiry favored (either with or without qualification) the use of formalized ethical codes in business.
CHAPTER XI

CONCLUSIONS AND RECOMMENDATIONS

Introduction

Information obtained in the survey which has been described and summarized in preceding chapters suggests some plausible conclusions. As stated earlier, these conclusions do not have a statistical basis. They are based upon the limited scope of the survey. However, many of the problem areas which were found to exist within the metal products industry (more particularly, within the specific trade associations studied) are probably not unique. Many of the same situations are concerning businessmen generally. Hence, the experiences these representatives of the metal products industry have had with ethical codes, together with their opinions regarding their value and effectiveness, should prove of interest and value to the businessmen in other industries. It is hoped that they will be encouraged to conduct similar studies of their own.

Conclusions

1. There is a great reluctance on the part of company managements to discuss the ethics of their operations.
Throughout the survey many firms who were mailed questionnaires chose not to cooperate. In some instances, when they did reply, they neglected to complete the questionnaire or answered only selected portions of it. As with many individuals, firms preferring not to go on record with their objectives and policies were even unwilling to say so. Although anonymity was promised participants in the survey, it was interesting to note that some firms took additional steps to make sure that their replies could not be traced.

Even where ethical codes or other statements of policy had been formalized, some firms considered them to be secret and confidential. In some instances they were, admittedly, kept on file and were available only upon request. Distribution was often limited even within the company. Most of the benefits to be derived from formalization are lost under these circumstances.

This general reluctance of many firms to deal with the ethical implications of both their internal and external operations constitutes one of the major factors which limit their progress. When more and more emphasis is being put upon the social responsibilities of business, secrecy in the area of basic statements of policy will only breed more distrust and suspicion of business objectives. A sincere effort on the part of a firm to clearly set forth its philosophy of business in an ethical code will benefit all parties concerned.
2. Efforts to develop and increase interest in the formalization of ethical codes or other statements of policy have been more successful at the trade association than at their member company level.

The survey at the trade association level disclosed that 19.31 per cent of the cooperating associations in the metal products industry had adopted formalized codes of their own, and another 11.03 per cent operated under Trade Practice Rules promulgated by the Federal Trade Commission. In the case of the member companies, taken together, just 12 per cent of the GIF, RETMA, and AIA members submitting survey data reported the adoption of codes.

It is recognized, however, that considerable care must be exercised in attaching importance to this conclusion. The trade associations in only one industry were involved. Within that industry the members of only three trade associations were surveyed. Within the limits of the study, however, it is apparent that companies have often been reluctant to develop adequate codes of their own. This is true even when their industry trade association has either formulated an ethical code of its own or has developed a set of Federal Trade Commission Trade Practice Rules.

3. The adoption of "model" codes (formulated and recommended by such groups as Rotary and the Chamber of Commerce of the United States) by organizations without any attempt being
made to adapt such codes to their own particular circum-
stances was responsible, in some cases, for dissatisfaction
with formalized codes.

The codes developed by Rotary and similar groups were
intended to be used as guides to aid trade associations and
their memberships in formulating codes of their own. It was
not expected that they should be adopted without careful
consideration of their applicability to the particular fac-
tors and conditions which characterized the individual organ-
ization. As in the case of many programs in the personnel
field, "canned" plans seldom are equally successful when
applied, without modification, in different firms. This
difficulty is intensified when such basic factors as a firm's
objectives, major policies, and ethical concepts are concerned.

Quite frequently when an organization adopts a model
code its management believes that much time and effort has
been saved. However, in not developing its own code, there
has been little or no re-examination of basic policies in
order to integrate them closely with the provisions of the
code. Only when this is done can a formalized ethical code
succeed in accomplishing what is expected and hoped of it.

4. Trade Practice Rules adopted under the auspices of the
Federal Trade Commission tend to be much narrower in scope
(though more detailed) and less useful in the formulation of
company policy than the ethical codes formulated by trade associations.

Formalized codes adopted by the trade associations dealt with a greater variety of types of business relations than was the case with the Trade Practice Rules. This factor was particularly noticed when it came to the use of formalized statements in the formulation of company policy. The GIF code was found to have been more useful in the formulation of company policy than were the RETMA Trade Practice Rules. In this regard, the survey disclosed that 40.3 per cent of the GIF compared to 22.9 per cent of the RETMA member companies made such use of their formalized statements.

Trade Practice Rules tend to be somewhat more legalistic in form than do the ethical codes. In either case a narrow approach results in a lack of the flexibility which is needed if a formalized statement is to be useful in helping a firm to cope with its day-to-day problems.

5. Formalized codes at the industry level give more attention to "external" business relations, while those at the company level emphasize "internal" relations.

Relationships among the members of the various trade associations were given primary consideration in the association codes. In addition to competitor relations, dealer,
public, and customer relations also received considerable attention. In the case of the codes at the company level, employee and internal managerial relations were most frequently dealt with.

It must be remembered that a trade association exists not to carry on a business of its own, but to provide various services to its membership. Thus it is natural that its code should deal primarily with the interrelationships among its members. With the industry code specializing in this area, company codes are often found to be most helpful in assisting with internal problems. However, in the case of a company whose trade association has not adopted a code at the industry level, there is a real need for the company code to deal with external in addition to internal factors.

6. There was little evidence of adequate provision having been made for either the enforcement of ethical codes or for corrective action in the event they were violated.

There was considerable reluctance among the association members to answer the inquiry pertaining to the enforcement of industry codes. Of those supplying information, only two of the GIF members claimed to have made formal provisions for the enforcement of their association code. Just four of the RETMA firms had similarly provided for the enforcement of their FTC Trade Practice Rules. As a whole, more attention was directed toward the enforcement of company codes. Twelve
of the RETMA firms provided for their enforcement. However, just one of the GIF and three of the AIA members had made such provisions. Likewise, 16 of the member firms were found to have provided for corrective action to be taken in the event code violations were discovered. In this case, however, the group of 16 was made up of 5 GIF, 8 RETMA, and 3 AIA concerns.

Reasons for the lack of enforcement machinery were seldom provided. Some firms did mention that codes are too frequently ignored when competition increases in intensity. Lacking the close control and censure measures which characterize professional associations in such fields as law and medicine, those provisions which were found were not stringent.

7. Once having been adopted, there is a tendency to neglect the periodic review and modification of ethical codes to keep them up to date.

There was little evidence in the survey data to indicate that those firms with formalized codes had provided for periodic review of their provisions. It is true, of course, that if codes are originally set up to reflect the basic policies and objectives of a firm, these factors would not be expected to change frequently. However, with the passage of time a firm develops, diversifies, and, in the process, may alter some of its primary objectives. When this happens,
the firm's formalized code should be carefully re-examined to make sure that it still is in line with the needs of the company in the light of its current operations.

Lack of periodic review, then, constitutes another limiting factor in the successful utilization of formalized ethical statements. When they no longer seem to meet the current needs of an organization, it is likely that their use will diminish until they are finally "shelved" altogether.

8. Reasons offered for failure to adopt a formalized code often disclosed a lack of knowledge and understanding of their potential benefits.

Many of the firms not adopting codes felt that there was no need for them. In some instances this attitude was based upon the claim that "actions speak louder than words." It was felt that no written code would override the day-to-day conduct of a company's personnel. The representatives of one firm was of the opinion that when a man had reached the age and position of managerial capacity, no oath would help to guide his behavior if he had not acquired a sense of fair play. Another claimed that their code, like the British Constitution, was written in the hearts and minds of its management who had been steeped in the company's traditions. Another stated that their supervisors "absorb standards and ethics from their superiors who, in turn, absorbed them from
those who went before them." Apparently the possibility of policies being altered as they are passed along was ignored.

There were other instances where the wisdom of putting an ethical code into writing was questioned. Where firms claimed to operate informally, it was felt that written codes would be difficult to keep up to date. With firms having the United States Government as its principal customer, it was claimed that this factor, alone, insured ethical operation. Another concern maintained that it would be impractical to adopt a written code which would be applicable in all fields without making such a code a mere generalization of platitudes. While a newly adopted ethical code might be given some attention initially, one firm thought that it would be soon relegated to the "bottom drawer or circular file" and forgotten.

In the instances cited, no recognition was given to the long-range benefits a firm might derive from the formalization of its ethical beliefs. Without an appreciation of such benefits, it is unlikely that a company will make a serious effort to support the ethical code of its industry (if it has one) either. Thus this would constitute still another important limiting factor in the development of formalized ethical statements.

9. Informal, rather than formal, codes are recognized and used more frequently by trade association member firms.
At the company level greater interest was shown in informal rather than formal ethical codes. Approximately one-half of the member concerns in each of the three trade associations selected for study reported that they operated under a recognized informal code. This was in contrast to the 6.5 per cent of the GIF, 10.7 per cent of the AIA, and 18.6 per cent of the RETMA members who were found to have adopted formal codes. In the comparative analysis it was noted that neither the age nor the size of the concern appeared to influence the adoption of an informal code.

The more frequent adoption of informal codes was particularly prevalent among those firms approving recognition of ethical standards but maintaining that little is to be gained by putting them into writing. Descriptions of informal codes indicated that they were usually quite brief, often based upon the Golden Rule. The more general character of informal codes often makes them more difficult to enforce and to insure that they are consulted when policies are formulated.

10. In the opinion of the writer, the survey has shown that there is sufficient value and effectiveness to be derived from the formalization of ethical codes and other statements of policy to merit a continuation of all efforts to encourage their development and use.
It has been shown that the efforts of various organizations (such as Rotary) to interest trade associations in the metal products industry in the formalization of their ethical beliefs have met with considerable success. Over 30 per cent of the reporting associations had either adopted a code or a set of Federal Trade Commission Trade Practice Rules. Although a lesser percentage of the association members had developed codes at the company level, there seemed to be an increasing tendency to do so. It was gratifying to note that the survey caused some firms to reconsider the advisability of formalizing their ethical concepts.

Valuable information as to the practical value and usefulness of formalized codes can be derived from those firms who expressed favorable opinions of them (43 per cent). Codes were found to be helpful in many different types of business relationships. They enabled firms to secure continuity of policies and uniform interpretation of rules and regulations. In a number of instances they were found to be particularly helpful in acquainting new company personnel with the basic tenets of the organization. These, along with other benefits which were mentioned, could well be studied by those firms who are still doubtful of the advantages to be derived from formalization of policy statements.

It was noted that, in some instances, a negative attitude concerning the value and effectiveness of ethical codes was based upon unfortunate dealings with concerns professing
but not actually following a formalized ethical code. Such objections may not have applied to all codes. Rather, they may have been directed to specific instances of misuse. A single experience of this kind can do much to nullify positive progress in the promotion of written codes. It is only through educational programs emphasizing the results of correct use that more favorable support can be obtained.

It is the belief of the writer that continued efforts on the part of sincere individuals to promote the formalization of ethical concepts, both at the industry and company levels, will result in an ever growing number of firms forming favorable opinions regarding their value and usefulness. These favorable opinions will frequently be implemented by formalization of previously unwritten policy statements.

**Recommended General Approach to the Development and Application of a Management Code**

Throughout the development and application of a management code, a company should be willing to discuss its ethical beliefs freely. An evident reluctance to do so often raises doubts regarding the ethics of an organization, whether or not there is any basis for them. Discussion of operational ethics will assist a company in developing a recognized ethical code. Once such a code has been formalized, it should be made available to all interested parties. It is only when a firm publically proclaims and actively practices its ethical beliefs that maximum mutual benefits are derived.
Continued efforts should be made to acquaint more organizations with the various benefits to be derived from formalization of ethical beliefs. Based upon their past record of achievement, it would seem most worthwhile for the semifraternal luncheon clubs and other organizations of businessmen to continue and augment their efforts to interest more trade associations and their member firms in the metal products and other industries in the formalization of their ethical beliefs. This should include education relating to the value and usefulness, and need for enforcement of formalized codes. When a company claims that it has no need for a formalized code, it may not have been made aware of its advantages. When model codes are provided, they should be suggested as guides only. They should be adapted to the particular needs of the organizations considering adoption of formalized policy statements.

Trade associations should actively promote the formalization of ethical codes. If such groups have developed codes of their own or have cooperated in the promulgation of FTC Trade Practice Rules, they should make every effort to secure maximum mutual support of the codes among their memberships. They should also encourage their members to adopt ethical codes of their own to supplement the written policy statement at the industry level. Through these efforts, trade associations are able to deal with problems existing within an industry which might appear insurmountable to an
individual firm. With deeds supplementing the written words, it must be shown that competition and ethical conduct can coexist. By means of a positive educational program emphasizing the value and usefulness of formalized codes, trade associations can counteract both the "lack of need" and "misuse" reasons which are so often given for failure to put ethical beliefs into writing.

Use of the more frequently encountered informal codes should be encouraged. When an organization has come to recognize the operation of an informal ethical code in its day-to-day operations, it has taken a step in the right direction. Successful operation of an informal code may encourage the organization to extend the scope of its efforts through formalization. It is recognized, however, that many firms with functioning informal codes need to be convinced of the necessity of putting them into written form. This can be accomplished only by education emphasizing the additional advantages to be gained through formalization.

Underlying the successful operation of any code (formal or informal) is the necessity of living it in deed as well as in word on a day-by-day basis. Little good will be accomplished by a code if it proclaims one thing and the organization actually does something quite different. It does not follow that since "actions speak louder than words" it is not necessary to reduce ethical beliefs to writing. It is most advantageous for the benefits of ethical actions to
be extended and perpetuated through written statements of policy.

Inherent in the day-to-day operations of any organization is the philosophy of its leadership. This philosophy, in some instances, may not be recognized. In other cases it may be reflected in a recognized informal code or, less frequently, in a written policy statement. If the professed ethical beliefs are actually put into practice, the public will generally permit self-regulation. However, if unethical practices appear due to the lack of a functional formal or informal code, involuntary governmental regulation may result. In striving to retain voluntary self-regulation through the development and successful operation of ethical codes, an organization is contributing to the traditional American free-enterprise system.

Specific Policy Recommendations

1. Although traditions or patterns of ethical behavior may evolve in an organization over a period of time, a definite procedure should be set up to facilitate the adoption and promulgation of a formalized ethical code.

   Successful development and operation of an ethical code does not just happen. In making long-established standards available to new personnel, a company should not rely upon their "automatic" absorption through contact of
the new with the older members of the organization. Recognized standards of conduct can best be perpetuated by first reducing them to clear and understandable written form. This, in turn, can be accomplished only by the delegation of definite responsibility to specific individuals for the formalization of the particular ethical beliefs.

Once the leadership of an organization concurs in the wording of their formalized policy statement, specific arrangements should be made for its promulgation. Sufficient publication channels should be used to insure widespread knowledge of its provisions. Any secrecy at this point would only raise doubts regarding the motives of the firm.

2. If a company uses a model code as a guide in developing its own code, care should be exercised to insure that the code that is finally agreed upon meets the needs of the particular company concerned.

Dissatisfaction with the operation of an adopted code of ethics has sometimes arisen after a model code was put into effect without any attempt to insure that it satisfied the particular needs of the organization. Like any other basic policy, it is essential that a code of ethics be fashioned to deal directly with the problems faced by a particular firm. It is only when this approach is taken that adequate control can be maintained and maximum benefits realized.
A model code, then, should be recognized and used in the manner of a guide or suggested general pattern. Its adoption without even thought of modification should not be looked upon to merely save time and effort. It is unlikely that these results will accrue. Rather, in the long run, such a course may only add to the difficulties an organization encounters in the field of ethical practices.

3. In order that a code be more useful in the formulation of policy, care should be exercised to broaden its scope in its formulative stage.

It was noted in the survey that FTC Trade Practice Rules tend to be much narrower in scope, though more detailed, than the ethical codes formulated by trade associations. The Trade Practice Rules, reflecting the narrower approach, were found to be less useful than the association codes in the formulation of company policy. Thus, in order to assure maximum usefulness, an industry group should particularly guard against too narrow a scope in the development of a set of Trade Practice Rules.

While it might be expected that codes at the industry level would emphasize external business relations, and company codes would give more attention to internal, it would be well, in either case, to give careful consideration to each area. With the ever-widening scope of social
responsibility being increasingly recognized by businessmen, it is likely that ethical codes will tend to become broader in scope.

4. Once an organization has formalized its ethical beliefs, definite steps must be taken to make sure that the code is actually used in the formulation of policy.

An organization should seek to determine the extent to which their ethical codes are actually used in the formulation of company policy. If a close code-policy relationship is not found, an attempt should be made to determine the reason therefore. Both the code itself and the control patterns of the organization should be checked closely. As management personnel are considered to bear the ultimate responsibility in this area, definite delegation, implemented by effective control techniques, must be made to assure compliance.

5. Organizations adopting codes should subject them to periodic review to ascertain whether they are still in line with the firm's objectives. If not, modification is in order.

Formalization of ethical beliefs is not a one-time proposition. Once an organization has adopted a code it cannot consider that their formulative mission is complete. Even though a code has been carefully constructed with the
current objectives of the concern in mind, over a period of time changes may occur which will lessen its usefulness in its original form. The promulgation of a second set of FTC Trade Practice Rules by RETMA to cover new developments in its industry is an excellent example.

If no specific provision is made for periodic re-evaluation of the applicability of a code to current circumstances, this necessary function will likely be delayed or not performed at all. Therefore, in order to insure that the review will take place, a specific procedure should be outlined with the responsibility for its operation centered in a designated individual or committee.

6. To insure maximum effectiveness, definite provisions should be made for the enforcement of codes and the handling of code violations.

Probably the greatest weakness which the survey disclosed among those organizations which had adopted formalized ethical codes was the near total absence of any effective enforcement machinery. Like laws, voluntary codes cannot be expected to enforce themselves. Not only should adequate provisions be made to assure compliance with codes, but these provisions must be implemented with definite steps to be taken in the event of their violation.

A limiting factor in the enforcement of industry codes is the rather loose organization of most of the trade
associations. Accordingly, they are generally unable to exercise the close type of control which characterizes professional associations and their codes. Nevertheless, if both the trade associations and their respective memberships are convinced of the mutual benefits to be derived from strict enforcement of their codes, definite steps can be taken in the direction of more adequate enforcement. Only when this is done will there be a fuller realization of the many advantages which result from a successfully operating ethical code.

7. In addition to formulating and operating under its own written code of ethics, a firm should contribute as much as it is able toward the successful operation of its industry code.

After a trade association has carefully formulated either a code of its own or a set of FTC Trade Practice Rules for its industry, much remains to be done. Unless the efforts of the association are given adequate support by its membership, it is unlikely that the project will be successful. Therefore, it is necessary that each member firm be diligent in its efforts to contribute to the successful functioning of the industry code. This will include active use of the code in the formulation of all policies, and voluntary compliance with its provisions.
Future Outlook

In the brief review of the historical development of ethics in business, its evolutionary nature was emphasized. This gradual increase in interest in the problem continues. In the survey at the company level it was noted that a number of the codes have been adopted recently. The increasing awareness of social responsibility on the part of businessmen has accompanied the increase in interest in the formalization of ethical beliefs. Indeed it may be, in part, responsible for it. The survey did not disclose any information which would give any indication that this evolutionary development would not continue. With the many advances in communication techniques in business, the activities of one concern are made known to others very quickly. It becomes increasingly important, then, for a company to go on record with their ethical beliefs, and support their expressions with their actions.

Representatives of those concerns that have found formalized ethical codes to be helpful in their day-to-day relationships were most enthusiastic when expressing opinions regarding their value and effectiveness. Thus codes, when properly formulated, implemented, and controlled, have been found to be most satisfactory in many cases. Their success has been due largely to the efforts on the part of the individual members of management. It is their responsibility to assure the use of the codes in the formulation of company
policy. When companies grow and expand their operations, formalized ethical statements become especially useful in the training of new personnel, in addition to bettering the relations with all interested parties.

It is hoped that this study may prove of value to businessmen whatever their stage of development in the formalization of their ethical beliefs. For those who have not, as yet, seriously considered the advantages to be derived from formalization, may it foster an interest in making further studies of the problem in view of their own situations. In the case of companies operating under recognized informal codes, it is hoped that they might consider the advisability of going on record to give a more permanent, tangible form to their concepts. Those organizations now operating under a formalized code might well determine whether they are being used to best advantage. Apparently this was not the case with a number of the companies surveyed. Workable provisions for determining compliance, enforcement, and handling violations should receive particular attention. In addition, all codes presently in effect should be subjected to periodic review in order to maintain maximum effectiveness in the light of current conditions. In considering any phase of the problem, management will, of necessity, have to consider its relationships with others, both within and outside its own company and industry. Ways must be sought to foster a higher
degree of trust and confidence among all individuals in business life. An increasing interest in the formulation and faithful practice of ethical business codes will make a significant contribution to this development.
APPENDIXES
APPENDIX A

(1)
Copy of Covering Letter to, and

(2)
Code for Classifying,
National Trade Associations in the
Metal Products Industry
The Society for the Advancement of Management and the Bureau of Business Research are cooperating in a survey of formal management codes of ethics and/or policies governing business relations. We are interested in any formal statements of basic principles for the development of sound customer relations, public relations, community relations, labor relations, supplier relations, investor relations, etc. The purpose of the survey is factual information concerning the nature, use and importance of American business or management codes. It is hoped that such a survey will be helpful to American executives in formulating and applying such codes, and to the general public in understanding the significance of this factor in American business life.

Our first step in undertaking such a survey is to assemble copies of existing codes from trade organizations and from individual firms. In this we are asking your help in the following ways: (We are not interested in organization manuals for top administrative management.)

(1) Information as to whether the association (or associations) of which you are the chief executive has a code of ethics or business practices.

(2) A copy of your association code, if you have one.

(3) A copy of your printed membership list. It would be most helpful if you would check the names of member firms known or believed to have adopted your industry code or to have developed one of their own. (Such lists will only be used to request copies of codes from the individual firms.)

(4) If you do not have a membership list, but do know of firms among your members who have adopted your industry code or their own codes, the names and addresses of such firms would enable us to request copies of their codes from them.

If your Association does have a code, we would appreciate the following information from you:
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April 16, 1952

(1) A brief statement of the methods by which an understanding and acceptance of your code(s) is developed within your industry(ies).

(2) A brief explanation of the methods by which you check the degree of compliance with or intelligent application of the code(s) by industry members.

Very sincerely yours,

Ralph C. Davis, Chairman,
Committee Society for the Advancement of Management

Viva Boothe, Director,
Bureau of Business Research

VB/mjh
Code for Classifying National Trade Associations for the Metal Products Industry

1. PRIMARY METAL INDUSTRIES

331. Blast Furnaces, Steel Works, and Rolling Mills
   1. Blast Furnaces
   2. Steel Works and Rolling Mills
   3. Electrometallurgical products

332. Iron and Steel Foundries
   1. Gray-iron Foundries
   2. Malleable-iron foundries
   3. Steel Foundries

333. Primary Smelting and Refining of Nonferrous Metals
   1. Primary smelting and refining of copper
   2. Primary smelting and refining of lead
   3. Primary smelting and refining of zinc
   4. Primary refining of aluminum
   5. Primary refining of magnesium
   6. Primary smelting and refining-Nonferrous, N.O.C.

334. Secondary Smelting and Refining of Nonferrous Metals and Alloys

335. Rolling, Drawing and Alloying of Nonferrous Metals
   1. Rolling, drawing and alloying of copper
   2. Rolling, drawing and alloying of aluminum
   3. Rolling, drawing and alloying-Nonferrous, N.O.C.

336. Nonferrous Foundries

337. Miscellaneous Primary Metal Industries
   1. Iron and Steel Forgings
   2. Wire Drawing
   3. Welded and heavy-riveted pipe
   4. Primary metal industries, N.O.C.

2. FABRICATED METAL PRODUCTS (Except ordnance, Machinery and Transportation Equipment)

341. Tin Cans and Other Tinware

342. Cutlery, Hand Tools, and General Hardware
   1. Cutlery
   2. Edge tools
   3. Hand tools (except edge tools, machine tools, files and saws)
   4. Files
5. Hand saws and saw blades
6. Hardware, N.O.C.

343. Heating Apparatus (Except electric and plumbers' supplies)
   1. Enameled iron and metal sanitary ware and other plumbers supplies
   2. Oil burners, domestic and industrial
   3. Heating and cooking apparatus (Except electrical) N.O.C.

344. Fabricated Structural Metal Products
   1. Fabricated structural steel and ornamental metal work
   2. Metal doors, sash, frames, molding and trim
   3. Boiler shop products
   4. Sheet-metal work

346. Metal Stamping Coating and Engraving
   1. Vitreous-enamedled products
   2. Automobile stampings
   3. Stamped and pressed metal products (except automobile)
   4. Powder metallurgy
   5. Enameling, japanning, and lacquering
   6. Galvanizing and other hot-dip coating
   7. Engraving on metal
   8. Electroplating, plating and polishing

347. Lighting Fixtures

348. Fabricated Wire Products
   1. Nails and Spikes
   2. Wirework, N.O.C.

349. Miscellaneous Fabricated Products
   1. Metal shipping barrels, drums, kegs and pails
   2. Safes and vaults
   3. Steel springs
   4. Bolts, nuts, washers and rivets
   5. Screw-machine products
   6. Collapsible tubes
   7. Gold, silver, tin and other foil
   8. Fabricated metal products, N.O.C.

3. MACHINERY (EXCEPT ELECTRICAL)

351. Engines and Turbines
   1. Steam engines, turbines, and water wheels
   2. Diesel and semi-diesel engines; other internal combustion engines, N.O.C.
352. Agricultural Machinery and Tractors
   1. Tractors
   2. Agricultural machinery (except tractors)

353. Construction and Mining Machinery and Equipment
   1. Construction, mining and similar machinery
      (except oil-field machinery and tools)
   2. Oil-field machinery and tools

354. Metal Working Machinery
   1. Machine tools
   2. Metal working machinery (except machine tools)
   3. Machine-tool accessories, other metal-working
      machinery accessories and machinists' precision
      tools

355. Special-Industry Machinery (Except Metal Working
      Machinery)
   1. Food-products machinery
   2. Textile machinery
   3. Woodworking machinery
   4. Paper-Industries machinery
   5. Printing-trades machinery and equipment
   6. Special-industry machinery, N.O.C.

356. General Industrial Machinery and Equipment
   1. Pumps, air and gas compressors, and pumping
      equipment
   2. Elevators and escalators
   3. Conveyors and conveying equipment
   4. Blowers, exhaust and ventilating fans
   5. Industrial tracks, tractors, trailers, and
      stockers
   6. Mechanical power-transmission equipment (except
      ball and roller bearing)
   7. Industrial furnaces and ovens
   8. Mechanical stokers, domestic and industrial
   9. General Industrial machinery and equipment, N.O.C.

357. Office and Store Machines and Devices
   1. Computing machines and cash registers
   2. Typewriters
   3. Vending, amusement and other coin-operated
      machines
   4. Scales and balances
   5. Office and store machines and devices, N.O.C.
358. Service- Industry and Household Machines
1. Domestic laundry equipment
2. Commercial laundry, dry-cleaning and pressing equipment
3. Sending machines
4. Vacuum cleaners
5. Refrigerators, refrigeration machinery, and complete air-conditioning units
6. Measuring and dispensing pumps
7. Service industry, N.O.C.

359. Miscellaneous Machinery Parts
1. Valves and fittings (except plumbers' valves)
2. Fabricated pipe and fittings
3. Ball and roller bearings
4. Machine shops (jobbing and repairs)

4. ELECTRICAL MACHINERY, EQUIPMENT AND SUPPLIES

361. Electrical Generating, Transmission, Distribution, and Industrial Apparatus
1. Wiring devices and supplies
2. Carbon and graphite products for use in electrical industry
3. Instruments for indicating, measuring and recording electrical quantities and characteristics
4. Motors, generators, and motor-generator sets
5. Power and distribution transformers
6. Switchgear, switchboard apparatus, and industrial controls
7. Electrical Welding apparatus
8. Electrical equipment for industrial use, N.O.C.

362. Electrical Appliances

363. Insulated Wire Cable

364. Electrical Equipment for Motor Vehicles, Aircrafts, and Railway Locomotives and Cars

365. Electric Lamps

366. Communication Equipment and Related Products
1. Radios, radio and television equipment (except radio tubes), radar and related detection apparatus, and phonographs
2. Radio tubes
3. Phonograph records
4. Telephone and telegraph equipment
5. Communication equipment, N.O.C.
369. Miscellaneous Electrical Products
   1. Storage batteries
   2. Primary batteries (dry and wet)
   3. X-ray and therapeutic apparatus and non-radio electronic tubes
   4. Electrical products, N.O.C.

5. TRANSPORTATION EQUIPMENT

371. Motor Vehicle and Motor-Vehicle Equipment
   1. Motor vehicles
   2. Passenger-car bodies
   3. Truck and bus bodies
   4. Motor-vehicle part and accessories
   5. Truck trailers
   6. Automobile trailers (for attachment to passenger cars)

372. Aircraft and Parts
   1. Aircraft
   2. Aircraft engines and engine parts
   3. Aircraft propellers and propeller parts
   4. Aircraft parts and auxiliary equipment, N.O.C.

373. Ship and Boat Building and Repairing
   1. Ship building and repairing
   2. Boat building and repairing

374. Railroad Equipment
   1. Locomotives and parts
   2. Railroad and steel cars

375. Motorcycles, Bicycles and Parts

379. Transportation Equipment, N.O.C.

6. PROFESSIONAL, SCIENTIFIC, and CONTROLLING INSTRUMENTS; PHOTOGRAPHIC AND OPTICAL GOODS; WATCHES AND CLOCKS

381. Laboratory, Scientific and Engineering Instruments (except surgical, medical and dental)

382. Mechanical Measuring and Controlling Instruments

383. Optical Instruments and Lenses
384. Surgical, Medical, and Dental Instruments and Supplies
   1. Surgical and medical instruments
   2. Surgical and orthopedic appliances and supplies; and personal safety devices, N.O.C.
   3. Dental equipment and supplies

385. Ophthalmic Goods

386. Photographic Equipment and Supplies

387. Watches, Clocks, Clock-work Operated Devices, and Parts
   1. Watches, clocks, and parts (except watchcases)
   2. Watchcases
Table 50
Competitor Relations: Number and Percentage Distribution of Rules of Conduct in Codes, by Type of Code, by Type of Competitor Relations

<table>
<thead>
<tr>
<th>Type of Competitor Relations</th>
<th>Type of Code</th>
<th>Number</th>
<th>Percentage Distribution</th>
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<tr>
<td>Supporting Fair Trade Practices</td>
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| Misrepresentation of Product         | 9.62     | 20.80        | 16.75 |
| Prohibited Discrimination            | 14.10    | 18.98        | 17.21 |
| Contracts and Guarantees             | 10.90    | 8.39         | 9.30  |
| Commercial Bribery                   | 2.56     | 5.48         | 4.42  |
| Coercion in Trade                    | .64      | 3.65         | 2.56  |
| False or Deceptive Selling Methods   | 10.26    | 18.97        | 15.81 |
| Developing Confidence                | 9.62     | 1.46         | 4.42  |
| Interference with Competitors        | 32.05    | 16.42        | 22.09 |
| Competent, Helpful, and Honest Source of Supply | 0.00 | .37         | .23  |
| False Invoicing                      | 2.56     | 1.82         | 2.09  |
| Supporting Fair Trade Practices      | 7.69     | 3.66         | 5.12  |
| Total                                | 100.00   | 100.00       | 100.00 |
Table 51

Customer Relations: Number and Percentage Distribution of Rules of Conduct in Codes, by Type of Code and Type of Customer Relations

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<td>Product</td>
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<td>False or Deceptive Selling</td>
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<td></td>
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<td></td>
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<td></td>
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<td>Standard</td>
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|                          |                         |
| Total                    | 100.00                  | 100.00 | 100.00 |
Table 52
Dealer Relations: Number and Percentage Distribution of Rules of Conduct in Codes, by Type of Code, by Type of Dealer Relations

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</tr>
<tr>
<td></td>
<td>Number</td>
<td></td>
<td></td>
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<td>17</td>
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<td>12</td>
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<td>2</td>
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<td>17</td>
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Table 53

Public Relations: Number and Percentage Distribution of Rules of Conduct in Codes, by Type of Code, by Type of Public Relations

<table>
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<th>Type of Code</th>
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<td></td>
<td>Number</td>
</tr>
<tr>
<td>Misrepresentation of Product</td>
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</tr>
<tr>
<td>Prohibited Discrimination</td>
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<tr>
<td>Contracts and Guarantees</td>
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<td>Commercial Bribery</td>
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<tr>
<td>Coercion in Trade</td>
<td>1</td>
</tr>
<tr>
<td>False or Deceptive Selling Methods</td>
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<tr>
<td>Developing Confidence</td>
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<tr>
<td>Assistance to Customers</td>
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</tr>
<tr>
<td>Interference with Competitors</td>
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<tr>
<td>Consideration of Public</td>
<td>3</td>
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<tr>
<td>Competent, Helpful, and Honest Source of Supply</td>
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<td>Total</td>
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</table>

Percentage Distribution

| Misrepresentation of Product                          | 14.13     | 34.91    | 27.58    |
| Prohibited Discrimination                              | 5.43      | 6.51     | 6.13     |
| Contracts and Guarantees                               | 10.87     | 8.88     | 9.57     |
| Commercial Bribery                                     | 4.35      | 8.28     | 6.90     |
| Coercion in Trade                                      | 1.09      | 6.51     | 4.60     |
| False or Deceptive Selling Methods                     | 10.87     | 24.26    | 19.54    |
| Developing Confidence                                  | 13.04     | 0.00     | 4.60     |
| Maintain High Quality Standards                        | 6.52      | 0.59     | 2.68     |
| Assistance to Customers                                | 1.09      | 2.37     | 1.92     |
| Interference to Competitors                            | 4.35      | 4.73     | 4.60     |
| Consideration of Public                                | 3.26      | 0.00     | 1.15     |
| Competent, Helpful, and Honest Source of Supply         | 20.65     | 0.00     | 7.28     |
| False Invoicing                                        | 4.35      | 2.96     | 3.45     |
| Total                                                  | 100.00    | 100.00   | 100.00   |
Table 54

Owner Relations: Number and Percentage Distribution of Rules of Conduct, by Type of Code, by Type of Owner Relations

<table>
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<th>Type of Code</th>
<th></th>
<th></th>
<th></th>
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<td>Own Code</td>
<td>F.T.C. Codes</td>
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<td>Number</td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
</tr>
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<td>Contracts and Guarantees</td>
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<td>8</td>
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</tr>
<tr>
<td>Developing Confidence</td>
<td>11</td>
<td>2</td>
<td>13</td>
<td></td>
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<tr>
<td>Maintain Highest Quality Standards</td>
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<td>16</td>
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<td>Promote Interests of Owners</td>
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<td>10</td>
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<tr>
<td>Submitting Proposals</td>
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Percentage Distribution

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<table>
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Table 57

Community Relations: Number and Percentage Distribution of Rules of Conduct, by Type of Code, by Type of Community Relations

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</tr>
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<td>Promotion of Good</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Citizenship and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of Community</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>0</td>
<td>16</td>
<td></td>
</tr>
</tbody>
</table>

Percentage Distribution

<table>
<thead>
<tr>
<th>Type of Community Relations</th>
<th>Own Code</th>
<th>F.T.C. Code</th>
<th>Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Confidence</td>
<td>18.75</td>
<td>0.00</td>
<td>18.75</td>
</tr>
<tr>
<td>Observance of Legal</td>
<td>18.75</td>
<td>0.00</td>
<td>18.75</td>
</tr>
<tr>
<td>Requirements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion of Good</td>
<td>62.50</td>
<td>0.00</td>
<td>62.50</td>
</tr>
<tr>
<td>Citizenship and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of Community</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>
Table 58

Enforcement Relations: Number and Percentage Distribution of Rules of Conduct, by Type of Code, by Type of Enforcement Relations

<table>
<thead>
<tr>
<th>Type of Enforcement Relations</th>
<th>Type of Code</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own Code</td>
<td>F.T.C. Code</td>
<td>Both</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arbitration</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Enforcement of Code Violations</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>8</td>
<td>12</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Enforcement Relations</th>
<th>Type of Code</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage Distribution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arbitration</td>
<td>75.00</td>
<td>75.00</td>
<td>75.00</td>
<td></td>
</tr>
<tr>
<td>Enforcement of Code Violations</td>
<td>25.00</td>
<td>25.00</td>
<td>25.00</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>
Table 59

Government Relations: Number and Percentage Distribution of Rules of Conduct, by Type of Code, by Type of Government Relations

<table>
<thead>
<tr>
<th>Type of Government Relations</th>
<th>Type of Code</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own Code</td>
<td>F.T.C. Code</td>
<td>Both</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
<td></td>
</tr>
<tr>
<td>Observance of Legal Requirements</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Act in such a Way that Legislation is Unnecessary</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Be Informed of Laws</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Promote Reasonable Laws</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>1</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

| Percentage Distribution                   |            |          |          |
| Observance of Legal Requirements         | 62.50       | 100.00   | 66.67    |
| Act in Such a Way that Legislation is Unnecessary | 12.50      | 0.00     | 11.11    |
| Be Informed of Laws                       | 12.50       | 0.00     | 11.11    |
| Promote Reasonable Laws                   | 12.50       | 0.00     | 11.11    |
| Total                                     | 100.00      | 100.00   | 100.00   |
Table 60

Financial Relations: Number and Percentage Distribution of Rules of Conduct by Type of Code, by Type of Financial Relations

<table>
<thead>
<tr>
<th>Type of Financial Relations</th>
<th>Type of Code</th>
<th>Number</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own Code</td>
<td>F.T.C. Code</td>
<td>Both</td>
</tr>
<tr>
<td>Developing Confidence</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Consideration of Capital</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Waste in Capital</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>0</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Developing Confidence</th>
<th>F.T.C. Code</th>
<th>Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Confidence</td>
<td>28.57</td>
<td>0.00</td>
<td>28.57</td>
</tr>
<tr>
<td>Consideration of Capital</td>
<td>42.86</td>
<td>0.00</td>
<td>42.86</td>
</tr>
<tr>
<td>Waste in Capital</td>
<td>28.57</td>
<td>0.00</td>
<td>28.57</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>0.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>
APPENDIX C

Materials Related to
Survey of 41 Leading Corporations

(1) Copy of Covering Letter
(2) Copy of Questionnaire
Dear

The Society for the Advancement of Management and The Ohio State University Bureau of Business Research are cooperating in a survey of general policy statements or formal management codes of ethics dealing with business relations. We are interested in any formal statements of basic principles for the development of sound customer relations, public relations, community relations, labor relations, supplier relations, investor relations, etc.

The purpose of the survey is to obtain and make available factual information concerning the nature, use and importance of such statements in American business. It is hoped that such a survey will be helpful to American executives in formulating and applying such codes, and to the general public in understanding the significance of this factor in American business life.

We would appreciate it very much if you would have the enclosed questionnaire filled out and returned to us along with a frank evaluation of its content and form. The anonymity of both your questionnaire data and criticisms will be fully protected. If your company has a formal code of ethics, will you please enclose a copy with your questionnaire.

Perhaps the greatest reward for our mutual efforts will be the satisfaction of a worthwhile contribution to the public interests.

The progress of our study will be facilitated if you will return the questionnaire and critique to our Bureau of Business Research by July 15, 1954.

Very sincerely yours,

Enclosure.

Ralph C. Davis, Vice-President
Society for the Advancement of Management
MANAGEMENT CODE SURVEY

Questionnaire

Note: For the purpose of this study, the term "code of ethics" may include formalized codes of ethics, trade practice rules adopted under FTC auspices, or any general statement of policy dealing with the different areas of business relations: customer, dealer, competitor, supplier, labor, financial, owner, community, public, or governmental.

1. Please supply the following general information:
   a. Number of years your company has been in operation __________________________
   b. Average number of employees on payroll during the past twelve months __________________________
   c. Type of business organization currently in force:  
      ________Proprietorship________Partnership________Corporation

2. Does your company have its own code of ethics or other statement of policy as described above?
   a. _____Yes—Adopted in _______. Revised in _______.
      (Year) (years)
      (Please enclose a copy of your code with this questionnaire.)
   b. _____No—Please state what you believe to be the major reason why your company has not adopted a written code:
      __________________________________________________________
      __________________________________________________________
      __________________________________________________________
      __________________________________________________________
      __________________________________________________________

   c. If your company has no formalized code or policy statement, does it operate under a recognized "informal" code?
      _____No. _____Yes,—Describe: __________________________________________________________
      __________________________________________________________
      __________________________________________________________
      __________________________________________________________
      __________________________________________________________
      __________________________________________________________

      (continue on back if necessary)
3. Concerning the use of written codes:

a. What use does your company make of your trade association code?

b. Are your association and/or company codes used in the formulation of company policy:

<table>
<thead>
<tr>
<th>Trade Association Code</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Code</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

c. What are the major ways in which your code(s) are related to the formulation of company policy?


d. How do you assure that your codes and/or policy statements are used in the formulation of company policy?


e. Please number in order of importance the business relations in which you feel your trade association code of ethics is of the greatest value to your company:

- Customer Relations
- Financial Relations
- Dealer Relations
- Owner Relations
- Competitor Relations
- Community Relations
- Supplier Relations
- Public Relations
- Labor Relations
- Governmental Relations
- Other—Describe: ____________________________
What do you believe to be the major reason for the value of the code in the business relations checked in 3(e) above?

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

f. Please number in order of importance the business relations in which you feel your company code of ethics is of the greatest value to your company:

- Customer
- Dealer Relations
- Competitor Relations
- Supplier Relations
- Labor Relations

- Financial Relations
- Owner Relations
- Community Relations
- Public Relations
- Governmental Relations

- Other—Describe: ______________________

What do you believe to be the major reason for the value of the code in the business relations checked in 3(f) above?

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

4. What are the main factors which influenced your company to adopt a formal code of ethics? ____________________________________________
5. a. Does your company have any provisions for the enforcement of your trade association and/or company code?

<table>
<thead>
<tr>
<th>Trade Association</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Code</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

b. How do you check compliance with policies based on your code(s)?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

6. How is your trade association and/or company code made known to your customers, employees and others?

- Posted on wall.
- Distributed in booklet form.
- On file - for examination by request.
- Other. Describe:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

7. What is the general opinion of your company's management as to the value and effectiveness of formalized codes of ethics and/or other statements of policy in modern business? Please comment:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
APPENDIX D

Materials Related to Survey of
Gray Iron Founders Society, Inc.

(1) Copy of Covering Letter
(2) Copy of Questionnaire
(3) Copy of Follow-up Letter
(4) Copy of Code of Ethics
The Society for the Advancement of Management and The Ohio State University Bureau of Business Research are cooperating in a survey of general policy statements or formal management codes of ethics dealing with business relations. We are interested in any formal statements of basic principles for the development of sound customer relations, public relations, community relations, labor relations, supplier relations, investor relations, etc.

The purpose of the survey is to obtain and make available factual information concerning the nature, use and importance of such statements in American business. It is hoped that such a survey will be helpful to American executives in formulating and applying such codes, and to the general public in understanding the significance of this factor in American business life.

The Gray Iron Pounders Society, Inc., of which you are a member, has cooperated in our survey by furnishing us with a copy of their association code of ethics and membership list.

We would appreciate it very much if you would (1) fill out the enclosed questionnaire, and (2) send us a copy of your company code of ethics or other policy statement—if you have one. The anonymity of your questionnaire data will be fully protected.

The progress of our study will be facilitated if you will return the questionnaire and copy of your code or policy statement to our Bureau of Business Research at your earliest convenience.

Very truly yours,

Ralph C. Davis, Vice-President
Society for the Advancement of Management

Enclosure

RCD: lmb

304
BUSINESS ETHICAL CODE SURVEY

Questionnaire

Note: For the purposes of this study, the term "code of ethics" may include formalized codes of ethics, trade practice rules adopted under FTC auspices, or any general statement of policy dealing with ethical considerations in the different areas of business relations: customer, dealer, competitor, supplier, employee, financial, owner, community, public, or governmental.

1. Please supply the following general information:
   a. Number of years your company has been in operation _____.
   b. Average number of employees on payroll during the
      past twelve months _________.
   c. Type of business organization currently in force:
      ___Proprietorship ___Partnership ___Corporation

2. Does your company have its own code of ethics or other
   statement of policy as described above?
   a. ____ Yes--Adopted in_____. Revised in_____.
      (Year) (Year(s))
      (Please enclose a copy of your code with this question¬
      naire.)
      ____ No--Please state what you believe to be the major
      reason why your company has not adopted a
      written code:

          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________

   b. If your company has no formalized code or policy
      statement, does it operate under a recognized
      "informal" code?
      ____ No. ____ Yes.--Describe: __________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
          ______________________________________________________
3. Concerning the use of written codes:

   a. What use does your company make of your trade association code?


b. Are your association and/or company codes used in the formulation of company policy?

   Trade Association code: __Yes __No
   Company Code: __Yes __No


c. What are the major ways in which your code(s) are related to the formulation of company policy?


d. How do you assure that your codes and/or policy statements are used in the formulation of company policy?


e. Please number in order of importance the business relations in which you feel your trade association code of ethics is of the greatest value to your company:

   ___ Customer Relations ___ Financial Relations
   ___ Dealer Relations ___ Owner Relations
   ___ Competitor Relations ___ Community Relations
   ___ Supplier Relations ___ Public Relations
   ___ Employee Relations ___ Government Relations
   ___ Other—Describe: ___________________________

What do you believe to be the major reason for the value of the code in the business relations checked in 3(e) above? ___________________________
f. Please number in order of importance the business relations in which you feel your company code of ethics is of the greatest value to your company:

- Customer Relations
- Dealer Relations
- Competitor Relations
- Supplier Relations
- Employee Relations
- Other—Describe: ______________________________

- Financial Relations
- Owner Relations
- Community Relations
- Public Relations
- Governmental Relations

What do you believe to be the major reason for the value of the code in the business relations checked in 3(f) above?

________________________________________

________________________________________

________________________________________

4. What were the main factors which influenced your company to adopt a formal code of ethics?

________________________________________

________________________________________

________________________________________

5. a. Does your company have any provisions for the enforcement of your trade association and/or company codes?

- Trade Association code: ___Yes ___No
- Company Code: ___Yes ___No

b. How do you check compliance with policies based on your code(s)?

________________________________________

________________________________________

________________________________________

________________________________________

________________________________________

________________________________________
c. Do you have any formal provisions for corrective action when code violations are discovered?
   ____No.  ____Yes--Describe: __________________________

6. How is your trade association and/or company code made known to your customers, employees and others?
   ____Posted on wall.
   ____Distributed in booklet form.
   ____On File - for examination by request.
   ____Other. Describe: __________________________

7. What is the general opinion of your company's management as to the value and effectiveness of formalized codes of ethics and/or other statements of policy in modern business? Please comment:

   __________________________
   __________________________
   __________________________
   __________________________
   __________________________
   __________________________
Dear Company Executives:

Attached is a copy of a letter sent to you in August relating to a study which we are making of Codes and Ethics in business and industry.

It will be most helpful to us if you will complete as much of the questionnaire as you can WHETHER OR NOT your company has a formal code of its own (in addition to the association code). For your convenience, we are enclosing another copy of our questionnaire.

Your cooperation will be much appreciated, since the Society for the Advancement of Management feels that the results of this study will be a definite contribution to management. It will greatly facilitate our study if we may receive your reply promptly.

Very sincerely yours,

Ralph C. Davis, Vice-President
Society for the Advancement of Management

Enclosures (2)
RCDFew
Fair competition is promoted by refraining from doing any of the following acts or practices:

1. **Price Fixing**

   Entering into any agreement, understanding, combination, conspiracy or concerted action with one or more competitors, or with one or more other persons, to unlawfully fix, maintain or enhance prices, suppress competition or restrain trade.

2. **Defamation of Competitors**

   Defaming competitors by falsely imputing to them dishonorable conduct, inability to perform contracts, questionable credit standing, business methods, selling prices, credit terms, policies, services or the quality of their products.

3. **False Statements Re Products**

   Making any false, misleading or deceptive statement concerning the quality, strength, value, performance, character, durability, composition, manufacture or distribution of gray iron castings produced by other foundries.

4. **Misrepresentation of Own Business or Products**

   Misrepresenting the character, extent or type of one's business, or the extent, character or quality of one's facilities, equipment, products or credit rating.

5. **Below Cost Prices**

   Selling castings below cost, when the intent is to injure a competitor and where the effect is to unreasonably restrain trade, tend to create a monopoly or substantially lessen competition.
6. **Quotation of Discriminatory Prices**

Granting or allowing, directly or indirectly, any rebate, refund, discount, credit, allowance or other form of price differential in such a way as to discriminate in price between different purchasers of goods of like grade and quality.

7. **Acceptance of Discriminatory Prices**

Inducing or receiving knowingly a discriminatory price as described in the foregoing provision.

8. **Knowledge of Costs, Etc.**

Giving quotations or guarantees of performance without a dependable knowledge of cost and all elements affecting performance. (All elements recognized by good accounting practice should be included in determining costs under this provision.)

9. **Inducing Breach of Contract**

Inducing or attempting to induce the breach of existing lawful contracts between competitors and their customers, or their suppliers, by any false or deceptive means whatsoever, or to interfere with or obstruct the performance of any such contractual obligations by any such means, with the intent of unduly hampering, injuring or prejudicing the interests of competitors.

10. **Ethical Invoicing**

Falsifying information on invoices or statements for the purpose of misleading or deceiving purchasers or prospective purchasers.

11. **Enticing Employees of Competitors**

Willfully enticing the employees of competitors with the intent of unduly hampering or injuring competitors in their business; provided, that nothing in this rule shall be construed as prohibiting employees from seeking more favorable employment.

12. **Ethical Advertising**

Issuing false or misleading advertising concerning competitive materials and products rather than pointing out the advantages and merits of a foundry's own products and service.
13. **Commercial Bribery**

Giving, offering to give, permitting or causing to be given, money or anything of value to agents, employees, or representatives of customers or prospective customers without the knowledge of their employers or principals, as an inducement to influence the purchase of castings manufactured by such foundry.

14. **Competitors' Confidential Information**

Obtaining information concerning the business of a competitor by bribery of an employee or agent of such competitor, and to use the information so obtained in such manner as to injure said competitor in his business or to suppress competition or unreasonably restrain trade.

15. **Fair Purchasing Methods**

Misrepresenting the facts regarding previous quotations in order to obtain lower purchase prices, or to reveal the provisions or terms of such quotations without the knowledge or consent of those who made such quotations.

16. **Child Labor**

Employment of child labor.

**Pattern Equipment**

It is a fair trade practice, when castings are ordered by a customer that require the making of new pattern equipment, or alteration of old equipment, to make a charge for such pattern work separate and distinct from the charge for the castings, thereby informing the customer of the cost of the respective items and thus assuring him that he is not being charged with the pattern costs of other customers, and when so purchased, the pattern equipment shall be the property of the customer and subject to his order.

**Desirable Practices**

The following desirable trade practices are recommended: that grey iron foundries be guided by a spirit of justice, honor and fairness in all relations with members of their own and associated industries, realizing that the standard of ethics maintained in their Industry must vitally affect the standards observed in such association industries; to encourage the adoption by associated industries of similar codes as guides to govern their practices; and to discourage unfair trade practices in those industries.
APPENDIX E

Materials Relating to Survey of
The Radio-Electronics-Television Manufacturers Assoc.

(1) Covering Letter
(2) Questionnaire
(3) Copy of Follow-up Letter
(4) Copy of Trade Practice Rules
The Society for the Advancement of Management and The Ohio State University Bureau of Business Research are cooperating in a survey of general policy statements or formal management codes of ethics dealing with business relations. We are interested in any formal statements of basic principles for the development of sound customer relations, public relations, community relations, labor relations, supplier relations, investor relations, etc.

The purpose of the survey is to obtain and make available factual information concerning the nature, use and importance of such statements in American business. It is hoped that such a survey will be helpful to American executives in formulating and applying such codes, and to the general public in understanding the significance of this factor in American business life.

The Radio-Electronics-Television Manufacturers Association, of which you are a member, has cooperated in our survey by furnishing us with a copy of the proposed trade practice rules for the Radio and Television Industry and their membership list.

We would appreciate it very much if you would (1) fill out the enclosed questionnaire, and (2) send us a copy of your company code of ethics or other policy statement--if you have one. The anonymity of your questionnaire data will be fully protected.

The progress of our study will be facilitated if you will return the questionnaire and copy of your code or policy statement to our Bureau of Business Research at your earliest convenience.

Very sincerely yours,

Ralph C. Davis, Vice-President
Society for the Advancement of Management
BUSINESS ETHICAL CODE SURVEY

Questionnaire

Note: For the purpose of this study, the term "code of ethics" may include formalized codes of ethics, trade practice rules adopted under FTC auspices, or any general statement of policy dealing with ethical considerations in the different areas of business relations: customer, dealer, competitor, supplier, employee, financial, owner, community, public, or governmental.

1. Please supply the following general information:
   a. Number of years your company has been in operation _____.
   b. Average number of employees on payroll during the past twelve months _____.
   c. Type of business organization currently in force:
      __Proprietorship__ Partnership__ Corporation

2. Does your company have its own code of ethics or other statement of policy as described above?
   a. ___Yes--Adopted in ______ (Year). Revised in _____ (Year(s)).
      (Please enclose a copy of your code with this questionnaire.)
   ___No--Please state what you believe to be the major reason why your company has not adopted a written code:

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

   b. If your company has no formalized order or policy statement, does it operate under a recognized "informal" code?
      ___No. ___Yes.--Describe: ______________________________________
      ________________________________________________________________
      ________________________________________________________________
      ________________________________________________________________
      ________________________________________________________________
      ________________________________________________________________
      ________________________________________________________________
      ________________________________________________________________
3. Concerning the use of written codes:
   a. What use does your company make of your trade association code?

   b. Are your association and/or company codes used in the formulation of company policy?
      Trade Association code: Yes ___ No ___
      Company Code: Yes ___ No ___

c. What are the major ways in which your code(s) are related to the formulation of company policy? 

   d. How do you assure that your codes and/or policy statements are used in the formulation of company policy? 

   e. Please number in order of importance the business relations in which you feel your trade association code of ethics is the greatest value to your company:

   Customer Relations: ___
   Dealer Relations: ___
   Competitor Relations: ___
   Supplier Relations: ___
   Employee Relations: ___
   Other: Describe: ___

   What do you believe to be the major reasons for the value of the code in the business relations checked in 3(e) above?

f. Please number in order of importance the business relations in which you feel your company code of ethics is of the greatest value to your company:

- Customer Relations
- Financial Relations
- Dealer Relations
- Owner Relations
- Competitor Relations
- Community Relations
- Supplier Relations
- Public Relations
- Employee Relations
- Governmental Relations
- Other—Describe: ___________________

What do you believe to be the major reason for the value of the code in the business relations checked in 3(f) above? _______________________________________

4. What were the main factors which influenced your company to adopt a formal code of ethics? ___________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

5. a. Does your company have any provisions for the enforcement of your trade association and/or company codes?

   Trade Association: _____Yes   Company: _____Yes

   Code: _____No

b. How do you check compliance with policies based on your code(s)?

   _____________________________________________________________________

   _____________________________________________________________________

   _____________________________________________________________________

   _____________________________________________________________________
c. Do you have any formal provisions for corrective action when code violations are discovered?
   ___No. ___Yes—Describe: ____________________________

6. How is your trade association and/or company code made known to your customers, employees and others?
   ___Posted on wall.
   ___Distributed in booklet form.
   ___On File - for examination by request.
   ___Other. Describe: _________________________________

7. What is the general opinion of your company's management as to the value and effectiveness of formalized codes of ethics and/or other statements of policy in modern business? Please comment:

   _________________________________
   _________________________________
   _________________________________
   _________________________________
   _________________________________
   _________________________________
Dear Company Executives:

Attached is a copy of a letter sent to you in January relating to a study which we are making of Codes and Ethics in business and industry.

It will be most helpful to us if you will complete as much of the questionnaire as you can WHETHER OR NOT your company has a formal code of its own. For your convenience, we are enclosing another copy of our questionnaire.

Your cooperation will be much appreciated, since the Society for the Advancement of Management feels that the results of this study will be a definite contribution to management. It will greatly facilitate our study if we may receive your reply promptly.

Very sincerely yours,

Ralph C. Davis, Vice-President
Society for the Advancement of Management

Enclosures (2)
RCD:fw
STATEMENT BY THE COMMISSION:


The industry is composed of persons, firms, corporations, and organizations engaged in the manufacture, sale, or distribution in commerce of radio receiving sets, television receiving sets, or combinations thereof, or parts or accessories therefor. According to available information, retail sales of industry products aggregate nearly two and one-half billion dollars per annum.

The rules constitute a revision and extension of those promulgated for the Radio Receiving Set Manufacturing Industry on July 22, 1939. Numerous changes embodying clarifications of the applicable requirements of laws administered by the Commission have been made.

Primary objectives of the rules are the maintenance of free and fair competition in the industry and the elimination and prevention of unfair methods of competition, unfair acts or practices, and other trade abuses. They are to be applied to such end and to exclusion of any acts or practices which suppress competition or otherwise restrain trade.

Proceedings to revise the trade practice rules as previously promulgated for the industry were instituted pursuant to industry applications. Drafts of suggested rules prepared by several industry trade associations were discussed in a trade practice conference in Washington, D.C., on June 21, 1951. A second session of the conference
was held in Washington on September 26, 27, and 28 in 1951, and a draft of suggested rules prepared by the Commission's staff was used as a basis for discussion. Additional problems raised by new technical developments in the industry were presented, and in accordance with the expressed wishes of industry members, a third session of the conference was held in Washington on June 18, 1952, where an all-industry committee's draft of twenty-nine suggested rules was discussed. Thereafter, proposed rules were published by the Commission and made available to all industry members and to all other interested or affected parties upon public notice whereby they were afforded opportunity to present their views, including such pertinent information, suggestions, amendments, or objections as they desired to offer, and to be heard in the premises. Pursuant to such notice, public hearings were held in Washington on October 8, and December 7, 1953, and all matters there presented, or otherwise received in the proceeding, were duly considered.

Thereafter, and upon full consideration of the entire matter, final action was taken by the Commission, where by it approved the Group I rules as hereinafter set forth.

Rules 6, 9, and 12 become operative six (6) months from the date of promulgation. All of the other rules become operative thirty (30) days from date of promulgation.

THE RULES

These rules promulgated by the Commission are designed to foster and promote the maintenance of fair competitive conditions in the interest of protecting industry, trade, and the public. It is to this end, and to the exclusion of any act or practice which fixes or controls prices through combination or agreement, or which unreasonably restrains trade or suppresses competition, or otherwise unlawfully injures, destroys, or prevents competition, that the rules are to be applied.

DEFINITIONS

As used in these rules, the terms "industry member" and "industry products" shall have the following meanings, respectively:

Industry Member: Any person, firm, corporation, or organization engaged in the manufacture, sale, or distribution of industry products as hereinafter defined.
Industry Products: Radio receiving sets, television receiving sets, combination radio and television receiving sets, or parts or accessories therefor.

GROUP I

The unfair trade practices embraced in the rules herein are considered to be unfair methods of competition, unfair or deceptive acts or practices, or other illegal practices, prohibited under laws administered by the Federal Trade Commission; and appropriate proceedings in the public interest will be taken by the Commission to prevent the use, by any person, partnership, corporation, or other organization subject to its jurisdiction, of such unlawful practices in commerce.

RULE 1 - MISBRANDING, MISREPRESENTATION, AND DECEPTIVE SELLING METHODS.

It is an unfair trade practice for any member of the industry, in the course of the marketing or distribution of products of the industry, (a) to use, or promote the use of, any marks, brands, labels, depictions, layouts, advertisements, prices, trade promotional descriptions, or representations of any kind, which, directly or by implication, are false, misleading, or deceptive to the purchasing or consuming public; or (b) to offer for sale, sell, or distribute, or promote the sale or distribution of products of the industry under any other conditions or selling practices which have the capacity and tendency or effect of misleading or deceiving the purchasing or consuming public in any materials respect.

RULE 2 - "ALL-WAVE," "WORLD-WAVE," "WORLD-WIDE WAVE," "STANDARD BROADCAST," ETC.

IN THE APPLICATION OF THESE RULES AND FOR THE PURPOSE OF AVOIDING CONFUSION, MISUNDERSTANDING, AND DECEPTION:

(a) Except as hereinafter provided, the terms "All-Wave," "World-Wave," "World-Wide Wave," or words, phrases, or representations denoting worldwide reception, shall not be used as descriptive of a radio receiving set advertised, offered for sale, sold, or distributed in the American market when such set is not constructed to receive and capable of receiving, with reasonable or adequate consistency, the entire respective spectrum of radio frequencies in recognized use in the art, namely, all long-wave broadcasts and transmissions, all medium-wave and short-wave broadcasts and transmissions,
and all other waves transmitted or broadcast, including both foreign and domestic; excepting, however, that such set so described or represented need not include within its capacity of reception such point-to-point transmissions as are confidential and illegal for general reception and divulgence to members of the public, or such unchanging signals as emanate from radio beacons or radio lighthouses, when such set is not otherwise falsely or deceptively described or represented, directly or indirectly, as being constructed to receive, or as being capable of receiving, such point-to-point or beacon or lighthouse transmissions.

(b) Nothing herein contained shall prohibit the use of the term "Limited All-Wave," "Limited World-Wave," "Limited World-Wide Wave," or terms or words of similar import, as descriptive of a radio receiving set advertised, offered for sale, sold, or distributed in the American market, when such set is constructed for and capable of consistently receiving at least a continuous spectrum of frequencies from 540 kilocycles to 18,000 kilocycles, provided such terms or words are immediately accompanied by words, phrases, or terms set forth conspicuously and clearly, unequivocally and truthfully stating the exact wave bands or frequencies which such set is capable of consistently receiving, for example:

"LIMITED ALL-WAVE
From 540 to 18,000 Kilocycles"

"LIMITED ALL-WAVE
From 530 to 21,000 Kilocycles"

"LIMITED WORLD-WAVE
From 540 to 18,000 Kilocycles"

"LIMITED WORLD-WIDE WAVE
From 540 to 18,000 Kilocycles"

"LIMITED ALL-WAVE
From 140 to 410 Kilocycles, and from 540 to 18,000 Kilocycles"

"LIMITED WORLD-WAVE
From 540 to 18,000 Kilocycles, and from 19,000 to 23,500 Kilocycles"
"LIMITED WORLD-WIDE WAVE
From 150 to 400 Kilocycles, and
From 540 to 35,000 Kilocycles"

(c) Nothing herein contained shall prohibit the use, as descriptive or a radio receiving set, of the term "All-Wave" as an integral part of a clause, sentence, or statement which truthfully and unequivocally sets forth the bands or radio frequencies such sets does not cover, and wherein the words "All-Wave" are not given greater prominence or conspicuousness than the other parts of such clause, sentence, or statement, provided such set is constructed for, and capable of receiving with reasonable or adequate consistency, all the waves or bands of frequencies from 540 to 18,000 kilocycles and such other bands or frequencies as are represented to be within its receptive capacity. The following are illustrative of such permissible phrases here provided for:

"All waves except for frequencies above 21,000 kilocycles and below 540 kilocycles"

"All waves except Asiatic stations"

"All waves except foreign and domestic frequencies above 18,000 kilocycles and below 540 kilocycles"

(d) The terms "Standard-Broadcast Receiver," "Frequency-Modulation Receiver" and "Television Receiver," as descriptive of an amplitude-modulation or a frequency-modulation radio or a television receiving set, shall not be used in such manner as to lead the public to believe that such set is constructed for, and capable of receiving with reasonable or adequate consistency, a greater number of radio or television frequency, signals or channels than is in fact true of such set.

RULE 3 - SPECIFIC TYPES OF ADVERTISEMENTS OR REPRESENTATIONS AMONG THOSE PROHIBITED.

It is an unfair trade practice for any member of the industry to use, or cause to be used, any of the following-described types of advertisements or representations:

(a) Advertisements or representations stating, purporting, or implying that any radio receiving set so advertised or represented will receive
distant stations or any or all foreign broadcasts or
transmissions easily or satisfactorily or as easily
or satisfactorily as local or domestic reception,
when such is not the fact.

(b) Advertisements or representations stating,
purporting, or implying that any radio or television
receiving set so advertised or represented, or the
reception thereof, is not subject to interference or
to being interfered with or interrupted by fading,
noise, electrical interference, atmospheric condi­
tions, static, or any other phenomena or conditions,
when such is not the fact.

(c) Advertisements or representations with re­
spect to the receiving capacity or performance of
any radio or television receiving set which make
deceptively exaggerated or misleading claims, or
claims which are not justified and supported by the
fact or performance of such radio or television
receiving set.

(d) Advertisements or representations which
directly or by implication lead purchasers to believe
that the radio or television receiving set so adver­
tised or represented is capable of greater or more
consistent or satisfactory performance or reception
that is in fact true.

(e) Advertisements or representations stating,
purporting, or implying that a radio receiving set
so advertised or represented will give world-wide
continuous reception or other continuous reception,
when such is not the fact; or that the radio receiv­
ing set will give such reception or other reception
with loud-speaker volume, when such is not the fact;
or that the radio receiving set will give worldwide
reception or other reception regularly or dependably,
when such is not the fact.

(f) Advertisements or representations of any
radio receiving set stating, purporting, or implying
that each station or any station, whether nearby or
foreign or domestic, can be brought in, or brought
in with sharp, clear, or distinct reception, or with
ease, simplicity, or regularity, by any amplitude-
modulation radio receiving set so advertised or
represented, when such is not the fact.
(g) Advertisements or representations stating, purporting, or implying that any radio receiving set so advertised or represented will bring in or receive broadcasts from Europe, Africa, South America, Australia, or Asia, or from any other designated locality, or that it will bring in such broadcasts or any of them, consistently or satisfactorily, when such is not the fact.

(h) Advertisements or representations stating, purporting, or implying that any radio or television receiving set so advertised or represented sifts out noise or is free from noise, or brings in far distant stations sharp or clear, or brings in signals to weak signal area sharp or clear, or brings in signals to fringe areas sharp or clear, when such is not the fact.

(i) Advertisements or representations stating, purporting, or implying that any radio receiving set so advertised or represented will bring in or receive satisfactorily or consistently foreign stations, police calls, aviation calls, radio transmissions from or to ships at sea, amateur stations, or other types of radio transmissions, when such is not the fact, or when only a small part of any such class of radio frequencies transmitted or broadcast is so receivable and such fact, or the fact that others of the same class are not so receivable, is deceptively concealed.

(j) Advertisements or representations stating, purporting or implying that a radio or television receiving set so advertised or represented contains a certain number of tubes or their equivalents or is of a certain tube capacity or equivalent tube capacity when one or more of such tubes or their equivalents in the set are dummies or fakes or contribute no useful function toward enhancing the normal and intended operation of the amplitude-modulation or frequency-modulation radio or television receiving set.

(Note: In order to avoid and prevent misleading tendencies or results, so-called "balast tubes," dial or other lamps used for illumination, so-called "plug-in resistors," and other like accessories or devices not providing the recognized and customary functions of tubes used to enhance the operation of a radio or a
television receiving set, are not to be included as tubes or their equivalents in advertisements or representations of a radio or a television receiving set which describe or refer to the set as having a certain number of tubes or their equivalents or as being of a specified tube capacity or equivalent tube capacity. Rectifier tubes, used to supply power to the set, shall not be included in the computation of tube count of such set.)

(k) Advertisements or representations stating, purporting, or implying that radio or television receiving sets so advertised or represented are of a current model, as specified by the manufacturer, when such is not the fact; or advertisements or representations which, directly or indirectly, have the capacity and tendency or effect of leading the purchasing public to believe that the set is of the current year's model or has not been supplanted, superseded, or succeeded by a newer or later model, when such is not true in fact; or advertisements or representations which are otherwise deceptive or misleading respecting the model of the set.

(Note: The term "current," in reference to a model, means that the said model appears in the prevailing literature published by the advertiser.)

(l) Advertisements or representations concerning a radio or a television receiving set which, by reference to the name of the manufacturer, or one or more component parts of the set, or to a patent license pursuant to which the set was manufactured, or otherwise, have the capacity and tendency or effect of misleading purchasers or the consuming public into the belief that such set is manufactured or sponsored by said component part manufacturer or patent licensor, when such is not the fact.

(m) Advertisements or representations stating, purporting, or implying that a television receiving set is a color television receiving set unless such receiving set is capable, as so constituted, or reproducing color television signals in color as transmitted from a television station transmitting in color; or advertisements or representations which, directly or indirectly, have the capacity and tendency or effect of leading the purchasing public
to believe that the television receiving set is capable of reproducing color television transmission signals in color as transmitted from a color television transmitting station, when such is not the fact.

(n) Advertisements or representations stating, purporting, or implying that a device for color television is capable of producing television pictures in color as broadcast, when such is not the fact.

RULE 4 - SPONSORSHIP

It is an unfair trade practice to use, or cause to be used, advertisements or representations relating to any radio or television sets, parts or accessories therefore, or to other products of the industry, which have the capacity and tendency or effect of misleading purchasers or the consuming public into the belief that such radio or television receiving sets, parts, accessories, or products are sponsored by, or are otherwise associated with, any person, concern, or organization, when such is not the fact.

RULE 5 - ALTERATION OF IDENTIFYING NAMES OR MARKS

It is an unfair trade practice for any industry member to remove or deface the name, trade name, or trade-mark of any manufacturer appearing on any industry product when such removal or defacement has the capacity and tendency or effect of deceiving purchasers or prospective purchasers of the product in any material respect.

RULE 6 - MISREPRESENTATION OF CABINET COMPOSITION.¹

(a) In the sale, offering for sale, or distribution of industry products, it is an unfair trade practice to misrepresent in any material respect the composition of the

¹The above rule applies to affirmative representation relating to the composition of cabinets and parts thereof. However, in the absence of any affirmative representation, the failure to disclose the true composition of a cabinet, or part thereof, which has the appearance of being a different composition, may result in deception of purchasers, and prospective purchasers and be violative of laws administered by the Commission. It is to be understood that the authority of the Commission is not limited to the affirmative representation practices inhibited by Rule 6.
cabinet, or any part of the cabinet, of any such product.

(b) Among practices inhibited by this rule are the following:

(1) Representing that a cabinet, or part thereof, is "mahogany," "solid mahogany," or "in mahogany," unless such cabinet or part is of solid mahogany wood.

(2) Representing that any cabinet, or part thereof, is "mahogany veneer" or "mahogany veneered" unless such cabinet or part consists of a base of wood or plies of wood on the exterior surface of which there has been glued or bonded a ply or veneer of mahogany wood; provided, however, that the terms may also be used as descriptive of cabinets, or parts thereof, which consist of other than a base wood or plies of wood on the exterior surface of which there has been glued or bonded a ply or veneer of mahogany wood when in close conjunction with the term used there is adequate disclosure as to the nature of the composition to which the ply or veneer of mahogany wood has been applied.

(3) Representing that any cabinet, or part thereof, is composed of wood, or of any named wood, when such is not the fact. (Note: Hardboard shall not be unqualifiedly represented as "wood." It may properly be represented as being "hardboard," "synthetic wood," "fiber board," "made from wood fiber (when such is the case," and may be designated by such other descriptive terms as adequately and non-deceptively make known the general nature of its composition.)

(4) Representing that any cabinet, or part thereof, is composed of wood (or any named wood), or is veneered with wood (or any named wood), when, though of such composition, an exposed surface or surfaces thereof have had applied thereto (by means of decalcomania, printing, or otherwise) a simulation of a wood grain, pattern, or figure different than the natural wood grain, pattern, or figure possessed by such wood or veneer, unless adequate disclosure is made of such fact in close conjunction with the said representation.

(Note (a): Requirements for the designations specified in (1) and (2), above, shall be considered as applicable to other named wood designations (such as "walnut," "solid walnut," and "walnut veneer.")

(Note (b): In the absence of an express statement to that effect, representations relating to the
composition of cabinets shall not be considered as applying to the interior shelves or bracings thereof.

(Note: When a representation regarding the composition of a cabinet is properly applicable to but a part or parts thereof, such fact shall be clearly indicated in close conjunction with the representation (as, for example, "top, front, and doors are solid mahogany - sides are mahogany veneer.")

RULE 7 - DECEPTIVE USE OR CHANGE OF CABINETS

This placing of a radio or television receiving set or chassis in a cabinet designed or made for a set or chassis of a different manufacturer or for a set or chassis of a different size, type, model, or any other combination, without clear disclosure of the fact, having the capacity and tendency or effect of thereby misleading or deceiving the purchasing or consuming public as to the origin, size, capacity, make, manufacture, brand, or type of such set or cabinet, or when done to mislead or deceive purchasers in any other respect, is an unfair trade practice.

RULE 8 - ALTERATION OR REMOVAL OF SERIAL NUMBERS

(a) To remove, obliterate, deface, alter, obscure the serial number of any industry product and thereby create a condition having the capacity and tendency or effect of misleading or deceiving purchasers or prospective purchasers as to the identity or age or warranty of such product, or of otherwise aiding, abetting, or causing confusion or deception in the marketing of any such product, is an unfair trade practice.

(b) Nothing herein shall be construed as preventing the replacement of that part of the product on which the serial number appears when necessary to the rebuilding or repair of such product and when the original serial number is re-marked on the substitute part; nor shall anything herein be construed as preventing the marking of an additional serial number on a "remanufactured" or "rebuilt" product when an immediate conjunction therewith there appears the word "rebuilt," "remanufactured," or an abbreviation of a distinguishing symbol indicative thereof.

RULE 9 - DECEPTION AS TO SIZE OF PICTURE

(a) In the sale or offering for sale of television receiving sets, it is an unfair trade practice to misrepresent
the size of the picture of any such set or the size of the picture tube with which the set is equipped or to make any representation, direct or indirect, as to the size of such picture or picture tube when such representation has the capacity and tendency or effect of deceiving purchasers or prospective purchasers as to the actual viewable picture displayed by the set or as to the actual size of such tube.

(b) Any direct or indirect representation as to the size of a picture shown by a television set or as to the size of the picture tube with which the set is equipped shall be with respect to the actual viewable area of the picture displayed by the set or of such tube on a single plane basis. When any such area is of rectangular shape, the size may be indicated by disclosure of but the horizontal distance between the vertical extremities (sides) of the area on a single plane basis, and when the area is of a circular shape, by disclosure of but the diameter of the area in a single plane basis; provided, however, that nothing herein shall be construed as inhibiting:

(1) a representation or disclosure as to the size of the area of a rectangular-shaped picture shown by a set or picture tube by specification of but a diagonal measurement of the distance between the vertical extremities of the width of the area on a single plane basis when a conspicuous disclosure is made, in immediate conjunction with the stated dimension, of the fact that same is a diagonal measurement; or

(2) a specification of the area in square inches with accompanying disclosure as to the shape of the area;

and provided, further, that in the case of sets equipped for the magnification or projection of picture images, any direct or indirect representation as to the size of the magnified or projected picture shall be accompanied by a conspicuous and nondeceptive disclosure of the fact that the represented size is that after magnification or projection, as the case may be.

(c) Nothing in this rule is intended to inhibit a representation that a television receiving set is equipped with a picture tube showing a larger picture than the actual viewable area of the picture shown by the set on a single plane basis when in close conjunction with any such representation a conspicuous and nondeceptive explanation
is made of the fact that the viewable picture area of the set is less than of its picture tube.

(Note: A tolerance not in excess of ± 1/8 inch in representations with respect to the size given in a single dimension of a picture screen or picture tube is permitted.)

RULE 10 - DECEPTION AS TO THE CONVERTIBILITY OF A TELEVISION RECEIVING SET TO SERVICES OTHER THAN THOSE FOR WHICH IT WAS ORIGINALLY MANUFACTURED

(a) In the offering for sale or distribution of television receiving sets, it is an unfair trade practice to make or publish, directly or indirectly, any false, misleading, or deceptive statement or representation concerning the convertibility of such sets to receive color pictures, higher frequency transmissions, or services other than those for which the set was originally manufactured, or concerning the uniqueness of convertibility of any receiving set or as to the cost of effecting such conversion; or to make any other representation concerning the convertibility of such sets which has the capacity and tendency or effect of misleading or deceiving purchasers or prospective purchasers.

(b) Among practices inhibited by this rule are:
(1) Representing that any set can be converted so as to permit the reception of a color signal in color, or of Ultra-High Frequencies, when such is not the fact; or (2) representing that any set can be converted to color, or can be converted to receive higher frequencies, without also stating conspicuously that such conversion will require the attachment or installation of a new part or parts, or antenna, or some other substantial modification of the set, if such is the case.

(Note: For the purpose of this rule, the term "converter," when used with reference to color, is a device or apparatus which, when added to or used with an existing television receiver, enables the receiver to receive color television broadcasts and reproduce them in color as broadcasted. The term "converter," when used with reference to frequencies, means a device or apparatus which, when added to or used with an existing television receiver, enables the receiver to receive transmissions on different frequencies or channels that those which the receiver was capable of receiving when initially sold.)
RULE 11 - MISUSE OF TERMS "DISCONTINUED MODEL," "FLOOR SAMPLE," "DEMONSTRATOR," ETC.

(a) In connection with the sale or offering for sale of radio or television receiving sets or other industry products by use of the terms "discontinued model," "floor sample," "demonstrator," or other word or term of similar import, it is an unfair trade practice to misrepresent any such receiving set or product or to use any such words or terms under conditions having the capacity and tendency or effect of misleading or deceiving customers or prospective customers.

Inhibited by this rule is representing or implying that a radio or television receiving set or other industry product is a "demonstrator" or "floor sample" when in fact such receiving set or product is a "trade-in" or has been repossessed or has been sold or rented or subjected to any use except by prospective customers for the purpose of determining their preference and its suitability for their use.

(b) Representing or implying that any radio or television receiving set is a "discontinued" model unless the manufacturer has in fact discontinued its manufacture entirely or has replace it on the market with a new set or new model embodying specific material changes in appearance, mechanical design, function, or the addition of new features to perform new functions.

RULE 12 - DECEPTION AS TO BEING "NEW"

In the sale, offering for sale, or distribution of radio receiving sets, television receiving sets, radio-television combination receiving sets, cathode-ray tubes, or other industry products, it is an unfair trade practice to represent any of such products as being new or unused, or as containing all new or unused parts, when such is not the fact, or deceptively to conceal the fact that any of such products have been used or contain a used part or parts.

(Note: Whenever a cathode-ray tube which has never been subjected to consumer, demonstrator, or floor-sample use, is discovered to have a defect or imperfection which can be and is completely remedied by the original manufacturer of such tube, such tube may be sold as a new tube. Cathode-ray tubes which have never been subjected to any consumer, demonstrator, or floor-sample use, and which, though giving satisfactory performance, do not meet the
standards of quality and workmanship maintained by
the manufacturer with respect to the general run of
tubes of the same type, need not be designated as
"used," but shall be designated as a "reject" or a
"second."

RULE 13 - DECEPTION AS TO IDENTITY OF MANUFACTURER WHEN
PRODUCTS ARE REPAIRED, RECONDITIONED, OR REBUILT
BY OTHER THAN THE ORIGINAL MANUFACTURER

Whenever an industry member obtains used or defec­tive products or parts manufactured by another member and
identified as such, and has repaired, reconditioned, or re­built such products or parts, whether through the installa­tion of a new part or parts, or otherwise, it is an unfair
trade practice to sell or offer for sale such products or
parts without clear disclosure, in advertising and sales
promotional literature relating thereto, and on labels or
marks prominently affixed in a conspicuous place on the
products or parts and containers thereof, of the fact that
such products or parts have been repaired, reconditioned,
or rebuilt, as the case may be, together with the name of
the person or firm performing such repairing, recondition,
or rebuilding: provided, however, that with respect to an
industry member who obtains cathode-ray tubes manufactured
by another member and identified as such, and who rebuilds
such tube reusing the envelope but utilizing all other new
parts, it is an unfair trade practice to fail to remove or
completely obliterate the name of the original manufacturer
of the tube.

RULE 14 - MISUSE OF TERMS "FACTORY REBUILT" AND "REBUILT"

It is unfair trade practice to use the term "re­built," "factory rebuilt," or any other word or term of
similar import, as descriptive of a radio or television
receiving set or other industry product which has not been
dismantled and reconstructed and all badly worn, impaired,
defective, or missing parts repaired or replaced with new
parts; provided, that the product shall not be described as
"factory rebuilt" unless said dismantling, reconstruction,
repair, or replacement of parts is performed at a factory,
or under factory supervision or control.

RULE 15 - DECEPTIVE PRICING

It is an unfair trade practice for any member of the
industry to represent or imply that an industry product may
be purchased for a specified price when such is not the
fact; or to represent or imply that an industry product is
being offered for sale at a reduced price when such is not
the fact; or otherwise to represent prices or terms of sale for industry products in such manner as to have the capacity and tendency or effect of misleading or deceiving purchasers or prospective purchasers.

Among the practices inhibited by this rule are:

(a) Representing or implying, in advertising or otherwise, that a stated price is for a complete functional radio or television receiving set when in fact the product so priced is without cabinet or batteries or any other part necessary to its normal functioning with proper antenna.

(b) Representing or implying, in advertising or otherwise, that the price of a radio or television receiving set or other product of the industry includes the cost of installation service, antenna, adjustment, accessories, etc., when such is not the fact.

(c) Representing or implying, in advertising or otherwise, as the price of a radio or television receiving set or other industry product, any amount which is less than the total price of such product which the purchaser is required to pay, excepting only State or local taxes the amount of which the purchasing public is presumed to have notice.

(d) Representing that a radio or television receiving set or other industry product is being sold at a reduced price when the alleged reduction is from a fictitious price; or is being offered at a reduced or special price when in fact the same model or product has never customarily been offered or sold by the claimant at a higher price than the alleged reduced or special price; or when over a substantial period of time the alleged "reduced" or "special" price has been the price at which the product customarily has been sold.

(e) Making or publishing any false, misleading, or deceptive representation, through advertising or otherwise, concerning installment sales contracts to be used in the sale of industry products, the terms or conditions of such contracts, the down payment to be required, the rate of interest or the financing cost to be charged, or respecting any other matters relative to such contracts.
RULE 16 - MISREPRESENTATION AS TO THE EFFECTIVENESS OF TELEVISION ANTENNAS

(a) In the offering for sale or distribution of television receiving sets equipped with antennas, or in the offering for sale or distribution of antennas designed for television sets, it is an unfair trade practice to make or publish any false, misleading, or deceptive statement or representation, by way of advertisement, label, mark, brand, or otherwise, concerning their uniqueness, performance, ability to "bring in" distant transmission, or utility for Very High Frequency or Ultra-High Frequency reception, or to make any other representation concerning the antenna which is false or misleading in any other material respect.

(b) Under this rule it is an unfair trade practice to make the unqualified general representation that television receiving sets equipped with "built-in" or "indoor" antennas will perform as satisfactorily as if they were equipped with "outdoor" antennas, when such is not the fact. When such representation is true only in a limited number of locations or within a limited radius of television transmitting stations, or only under specially favorable conditions, or under other performance limitations, it is an unfair trade practice under this rule to fail to make a clear and plain disclosure of such limitations.

RULE 17 - GUARANTIES, WARRANTIES, ETC.

(a) It is an unfair trade practice to use any guaranty respecting a radio or a television receiver, accessory, attachment, or part thereof, or any television service contract, or any advertisement or representation in relation thereto, which does not make conspicuous and nondeceptive disclosure of the conditions or limitations of the guaranty.

(b) Without in any way limiting the foregoing provisions of this rule, guaranties of the following type or character shall not be used:

(1) Guaranties containing statements, representations, or assertions which have the capacity and tendency or effect of misleading and deceiving in any respect; or

(2) Guaranties which are so used, or are of such form, text, or character, as to import, imply, or represent that the guaranty is broader than is in fact true; or
(3) Guaranties in which the conditions or limitations are stated in such manner or form as to be minimized, obscured, or concealed, wholly or in part.

(c) This rule shall be applicable also to warranties and any other writing purporting to be or having the effect of either a warranty or a guaranty.

RULE 18 - USE OF THE WORD "FREE"

In connection with the sale, offering for sale, or distribution of industry products, it is an unfair trade practice to use the word "free," or any other word or words of similar import, in advertisements or in other offers to the public, as descriptive of an article of merchandise, or service, which is not an unconditional gift, under the following circumstances:

(a) When all the conditions, obligations, or other prerequisites to the receipt and retention of the "free" article of merchandise or service offered are not clearly and conspicuously set forth at the outset so as to leave no reasonable probability that the terms of the offer will be misunderstood; and,

(b) When, with respect to any article of merchandise required to be purchased in order to obtain the "free" article or service, the offer (1) increases the ordinary and usual price of such article of merchandise, or (2) reduces its quality, or (3) reduces the quantity of size thereof.

(Note: The disclosure required by subsection (a) of this rule shall appear to close conjunction with the word "free" (or other word or words of similar import) wherever such word first appears in each advertisement or offer. A disclosure in the form of a footnote, to which reference is made by use of an asterisk or other symbol placed next to the word "free," will not be regarded as compliance.)

RULE 19 - FALSE INVOICING

Withholding from or inserting in invoices or sales slips statements or information by reason of which omission or insertion a false record is made, wholly or in part, of the transactions represented on the face of such invoices or
sales slips, with the capacity and tendency or effect of thereby misleading or deceiving purchasers, prospective purchasers, or the consuming public, is an unfair trade practice.

RULE 20 - IMITATION OF TRADE-MARKS, TRADE NAMES, ETC.

The imitation or simulation of the trade-marks, trade names, brands, or labels of competitors, with the capacity and tendency or effect of misleading or deceiving purchasers or prospective purchasers, is an unfair trade practice.

RULE 21 - TIE-IN SALES - COERCING PURCHASE OF ONE PRODUCT AS A PREREQUISITE TO THE PURCHASE OF OTHER PRODUCTS

The practice of coercing the purchase of one or more products as a prerequisite to the purchase of one or more other products, where the effect may be substantially to lessen competition or tend to create a monopoly or unreasonably to restrain trade is an unfair trade practice.

This rule should not be construed as inhibiting a requirement of purchases of a representative line of radio, television, or radio-television receiving sets, or of parts or accessories therefore, when such required purchases are not resorted to and pursued as a monopolistic practice and do not have the tendency or effect of unreasonably restraining trade, creating a monopoly, or substantially lessening competition.

RULE 22 - UNFAIR THREATS OF INFRINGEMENT SUITS

The circulation of threats of suits for infringement of patents or trade-marks among customers or prospective customers of competitors, not made in good faith but for the purpose or with the effect of thereby harassing or intimidating such customers or prospective customers or of unduly hampering, injuring, or prejudicing competitors in their business, is an unfair trade practice.
RULE 23 - PROHIBITED FORMS OF TRADE RESTRAINTS (UNLAWFUL PRICE FIXING, ETC.)

It is an unfair trade practice for any member of the industry, either directly or indirectly, to engage in any planned common course of action, or to enter into or take part in any understanding, agreement, combination, or conspiracy, with one or more members of the industry, or with any other person or persons, to fix or maintain the price of any goods or otherwise unlawfully to restrain trade; or to use any form of threat, intimidation, or coercion to include any member of the industry or other person or persons to engage in any such planned common course of action, or to become a party to any such understanding, agreement, combination, or conspiracy.

RULE 24 - CONSIGNMENT DISTRIBUTION

It is an unfair trade practice for any member of the industry to employ the practice of shipping industry products on consignment or pretended consignment for the purpose and with the effect of artificially clogging or closing trade outlets and unduly restricting competitors' use of said trade outlets in getting their products to consumers through regular channels of distribution, thereby injuring, destroying, or preventing competition, or tending to create a monopoly or unreasonably to restrain trade. Nothing in this rule shall be construed as restricting or preventing consignment shipping or marketing of industry products on consignment or pretended consignment.

2The inhibitions of this rule 23 are subject to Public Law 542, approved July 14, 1952 - 66 Stat. 632 (the McGuire Act) which provides that with respect to a commodity which bears, or the label or container of which bears, the trade-mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, a seller of such a commodity may enter into a contract or agreement with a buyer thereof which established a minimum or stipulated price at which such commodity may be resold by such buyer when such contract or agreement is lawful as applied to intrastate transactions under the laws of the State, Territory, or territorial jurisdiction in which the resale is to be made or to which the commodity is to be transported for such resale, and when such contract or agreement is not between manufacturers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms or cooperations in competition with each other.
products in good faith were supression of competition, restraint of trade, or undue interference with competitors' use of the usual channels of distribution, is not effected; nor shall anything in this rule be construed to authorize any agreement, understanding, or planned common course of action by and between industry members mutually to conform or restrict their practice of shipping goods on consignment with the intent or effect of lessening competition.

RULE 25 - USE OF LOTTERY

The offering or giving of prizes, premiums, or gifts in connection with the sale or distribution of industry products by means of a lottery, gift enterprise, or similar scheme, is an unfair trade practice.

(Note: This rule should not be construed as inhibiting the giving of prizes, premiums, or "giveaways," which giving is not contingent upon the requirement of a purchase of industry products or upon any other consideration.)

RULE 26 - DEFAMATION OF COMPETITORS OR FALSE DISPARAGEMENT OF THEIR PRODUCTS

The defamation of competitors by falsely imputing to them dishonorable conduct, inability to perform contracts, questionable credit standing, or by other false representations, or the false disparagement of the quality, grade, origin, use, construction, design, performance, properties, manufacture, or distribution of the products of competitors, or of their business methods, selling prices, values, credit terms, policies, or services, is an unfair trade practice.

RULE 27 - ENTICING AWAY EMPLOYEES OR COMPETITORS

It is an unfair trade practice for any member of the industry wilfully to entice away employees or sales representatives of competitors with the intent and effect of thereby unduly hampering or injuring competitors in their business and destroying or substantially lessening competition: Provided, that nothing in this rule shall be construed as prohibiting employees from seeking more favorable employment, or as prohibiting employers from hiring or offering employment to employees of competitors in good faith and not solely for the purpose of inflicting injury on a competitor.
RULE 28 - PROCUREMENT OF COMPETITORS' CONFIDENTIAL INFORMATION

It is an unfair trade practice for any member of the industry to obtain information concerning the business of a competitor by bribery of an employee or agent of such competitor, by false or misleading statements or representations, by the impersonation of one in authority, or by any other unfair means, and to use the information so obtained so as substantially to injure competition or unreasonably restrain trade.

RULE 29 - COMMERCIAL BRIBERY

It is an unfair trade practice for a member of the industry, directly or indirectly, to give, or offer to give, or permit or cause to be given, money or anything of value to agents, sales clerks, employees, or representatives of customers or prospective customers of the industry member, without the knowledge of the employers or principals of such agents, sales clerks, employees, or representatives, as an inducement -

(a) to influence such employers or principals to purchase or contract to purchase products manufactured or sold by the industry member; or

(b) to influence such employers or principals to regrain from dealing in the products of competitors or from dealing or contracting to deal with competitors; or

(c) for the purpose of causing said employees, agents, sales clerks, or representatives to push and promote the resale of the industry member's products over competing products being offered for resale by the employers or principals of said agents, employees, sales clerks, or representatives.

RULE 30 - EXCLUSIVE DEALS

It is an unfair trade practice for any member of the industry to contract to sell or sell any industry product, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the purchaser thereof shall not use or deal in the products of a competitor or competitors of such industry member, where the effect of such sale or contract for sale, or of such condition, agreement, or understanding, may be substantially to lessen competition or tend to create a monopoly in any line of commerce.
RULE 31 - PUSH MONEY

It is an unfair trade practice for any industry member to pay or contract to pay anything of value to a salesperson employed by a customer of the industry member as compensation for, or as an inducement to obtain, special or greater effort or service on the part of the salesperson in promoting the resale of products supplied by the industry member to the customer -

(a) When the agreement or understanding under which the payment or payments are made or are to be made is without the knowledge and consent of the salesperson's employer; or

(b) When the terms and conditions of the agreement or understanding are such that any benefit to the salesperson or customer is dependent on lottery or chance; or

(c) When any provision of the agreement or understanding requires or contemplates practices or a course of conduct unduly and intentionally hampering sales of products of competitors of an industry member; or

(d) When, because of the terms and conditions of the agreement or understanding, including its duration, or the attendant circumstances, the effect may be substantially to lessen competition or tend to create a monopoly; or

(e) When similar payments are not accorded to salespersons of competing customers on proportionally equal terms in compliance with Sec. 2(d) and (e) of the Clayton act.

(Note: Payments made by an industry member to a salesperson of a customer under an agreement or understanding that all or any part of such payments is to be transferred by the salesperson to the customer, or is to result in a corresponding decrease in the salesperson's salary, are not to be considered with the purview of this Rule 31, but are to be considered as subject to the requirements and provisions of Sec. 2(a) of the Clayton Act.)
RULE 32 - PROHIBITED DISCRIMINATION

I. Prohibited Discriminatory Prices, or Rebates, Refunds, Discounts, Credits, Etc., Which Effect Unlawful Price Discrimination. It is an unfair trade practice for any member of the industry engaged in commerce, in the course of such commerce, to grant or allow, secretly or openly, directly or indirectly, any rebate, refund, discount, credit, or other form of price differential, where such rebate, refund, discount, credit, or other form of price differential, effects a discrimination in price between different purchasers of goods of like grade and quality, where either or any of the purchases involved therein are in commerce, and where the effect thereof may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: Provided, however -

(a) That the goods involved in any such transaction are sold for use, consumption, or resale within any place under the jurisdiction of the United States;

(b) That nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such commodities are to such purchasers sold or delivered;

(Note: "Spindling" of Orders - This proviso shall not be construed as permitting the practice of allowing a price differential, whether in the form of a discount, rebate, or other form, through billing as a single order an

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3As used in this rule 32, the word "commerce" means "trade or commerce among the several states and with foreign nations, or between the District of Columbia or any Territory of the United States and any State, Territory, or foreign nation, or between any insular possessions or other places under the jurisdiction of the United States, or between any such possession or place and any State or Territory of the United States or the District of Columbia or any foreign nation, or within the District of Columbia or any Territory or any insular possession or other place under the jurisdiction of the United States."
aggregate of the amounts of two or more orders separately delivered, when such price differential is not justified by savings to the seller which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such products are to such purchasers sold or delivered.)

(c) That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade;

(d) That nothing herein contained shall prevent price changes from time to time where in response to changing conditions affecting the market for or the marketability of the goods concerned, such as but not limited to obsolescence of seasonal goods, distress sales under court process, or sales in good faith in discontinuance of business in the goods concerned.

II. Prohibited Brokerage and Commissions. It is an unfair trade practice for any member of the industry engaged in commerce, in the course of such commerce, to pay or grant, or to receive or accept, anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof, except for services rendered in connection with the sale or purchase of goods, wares, or merchandise, either to the other party to such transaction or to an agent, representative, or other intermediary therein where such intermediary is acting in fact for or in behalf, or is subject to the direct or indirect control, of any party to such transaction other than the person by whom such compensation is so granted or paid.

III. Prohibited Advertising or Promotional Allowances, Etc. It is an unfair trade practice for any member of the industry engaged in commerce to pay or contract for the payment of advertising or promotional allowances or any other thing of value to or for the benefit of a customer of such member in the course of such commerce as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufactured, sold, or offered for sale by such member, unless such payment or consideration is available on
proportionally equal terms to all other customers competing in the distribution of such products or commodities.

IV. Prohibited Discriminatory Services or Facilities. It is an unfair trade practice for any member of the industry engaged in commerce to discriminate in favor of one purchaser against another purchaser or purchasers of a commodity bought for resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale, or offering for sale of such commodity so purchased upon terms not accorded to all competing purchasers on proportionally equal terms.

V. Inducing or Receiving an Illegal Discrimination in Price. It is an unfair trade practice for any member of the industry engaged in commerce, in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited by the foregoing provisions of this rule.

VI. Exemptions. The inhibitions of this rule shall not apply to purchases of their supplies for their own use by schools, colleges, universities, public libraries, churches, hospitals, and charitable institutions not operated for profit.

(Note: In complaint proceedings charging discrimination in price or services or facilities furnished, and upon proof having been made of such discrimination, the burden of rebutting the prima facie case thus made by showing justification shall be upon the person charged; and unless justification shall be affirmatively shown, the Commission is authorized to issue an order terminating the discrimination: Provided, however, That nothing herein contained shall prevent a seller rebutting the prima facie case thus made by showing that his lower price or the furnishing of services or facilities to any purchaser or purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor. See Sec. 2-B, Clayton Act.)


Robert M. Parrish,
Secretary
APPENDIX F

Materials Relating to Survey of Aircraft Industries Association

(1) Copy of Covering Letter
(2) Copy of Questionnaire
(3) Copy of Follow-Up Letter
The Society for the Advancement of Management and The Ohio State University Bureau of Business Research are cooperating in a survey of general policy statements or formal management codes of ethics dealing with business relations. We are interested in any formal statements of basic principles for the development of sound customer relations, public relations, community relations, labor relations, supplier relations, investor relations, etc.

The purpose of the survey is to obtain and make available factual information concerning the nature, use and importance of such statements in American business. It is hoped that such a survey will be helpful to American executives in formulating and applying such codes, and to the general public in understanding the significance of this factor in American business life.

The Aircraft Industries Association, of which you are a member, has cooperated in our survey by furnishing us with their membership list. Although your association has neither a formalized written code of ethics nor a set of trade practice rules, we are interested in determining whether the members have adopted codes or other statements of policy of their own.

We would appreciate it very much if you would (1) fill out the enclosed questionnaire, and (2) send us a copy of your company code of ethics or other policy statement—if you have one. Please complete and return the questionnaire even if you do not have a company code. The anonymity of your questionnaire will be fully protected.

The progress of our study will be facilitated if you will return the questionnaire and copy of your code or policy statement to our Bureau of Business Research at your earliest convenience.

Very sincerely yours,

Ralph C. Davis, Vice-President
Society for the Advancement of Management
BUSINESS ETHICAL CODE SURVEY

Questionnaire

Note: For the purposes of this study, the term "code of ethics" may include formalized codes of ethics, trade practice rules adopted under FTC auspices, or any general statement of policy dealing with ethical considerations in the different areas of business relations: customer, dealer, competitor, supplier, employee, financial, owner, community, public, or governmental.

1. Please supply the following general information:
   a. Number of years your company has been in operation____
   b. Average number of employees on payroll during the past twelve months________.
   c. Type of business organization currently in force:
      __Proprietorship___Partnership___Corporation

2. Does your company have its own code of ethics or other statement of policy as described above?
   a._____Yes -- Adopted in_____. Revised in_____.
      (year) (year(s))
      (Please enclose a copy of your code with this questionnaire.)
   ____No -- Please state what you believe to be the major reason why your company has not adopted a written code:

b. If your company has no formalized code or policy statement, does it operate under a recognized "informal" code?
   _____No _____Yes--Describe:

   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________
   ____________________________________________________________


3. Concerning the use of written company codes:

a. Is your company code used in the formulation of company policy?
   
   _____Yes  _____No

b. What are the major ways in which your code is related to the formulation of company policy?
   
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________

   c. How do you assure that your code and/or policy statement is used in the formulation of company policy?
   
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________

   d. Please number in order of importance the business relations in which you feel your company code of ethics is of the greatest value to your company?
   
   ___________________ Customer Relations  ___________________ Financial Relations
   ___________________ Dealer Relations  ___________________ Owner Relations
   ___________________ Competitor Relations  ___________________ Community Relations
   ___________________ Supplier Relations  ___________________ Public Relations
   ___________________ Employee Relations  ___________________ Governmental Relations
   ___________________ Other - - Describe: ___________________

   ___________________ ___________________
   ___________________ ___________________
   ___________________ ___________________
   ___________________ ___________________
   ___________________ ___________________
   ___________________ ___________________
   ___________________ ___________________

   What do you believe to be the major reason for the value of the code in the business relations checked in 3(f) above?
   
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
   ______________________________________________
4. What were the main factors which influenced your company to adopt a formal code of ethics? _______________________

____________________________________
____________________________________
____________________________________
____________________________________
____________________________________

5. a. Does your company have any provisions for the enforcement of your company code?

___Yes ___No

b. How do you check compliance with policies based on your code? _______________________

____________________________________
____________________________________
____________________________________
____________________________________
____________________________________

C. Do you have any formal provisions for corrective action when code violations are discovered?

___No ___Yes - - Describe: ______________

____________________________________
____________________________________
____________________________________
____________________________________
____________________________________
6. How is your company code made known to your customers, employees and others?

___ Posted on wall.
___ Distributed in booklet form.
___ On File - for examination by request.
Other. Describe: _____________________________________

7. What is the general opinion of your company's management as to the value and effectiveness of formalized codes of ethics and/or other statements of policy in modern business? Please comment:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Dear Company Executives:

Attached is a copy of a letter sent to you in January relating to a study which we are making of Code and Ethics in business and industry.

It will be most helpful to us if you will complete as much of the questionnaire as you can WHETHER OR NOT your company has a formal code of its own. For your convenience, we are enclosing another copy of our questionnaire.

Your cooperation will be much appreciated, since the Society for the Advancement of Management feels that the results of this study will be a definite contribution to management. It will greatly facilitate our study if we may receive your reply promptly.

Very sincerely yours,

Ralph C. Davis, Vice-President
Society for the Advancement of Management

Enclosures (2)
RCD:dw
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AUTOBIOGRAPHY

I, Jay Richard Box, was born in Grand Rapids, Ohio, March 16, 1921. I received my secondary school education in the public school at Grand Rapids, Ohio. My undergraduate training was obtained at Bowling Green State University, from which I received the degree Bachelor of Arts in 1943. From the University of Michigan, I received the degree Master of Business Administration in 1949. During the years 1949-52, I was Instructor in Economics and Business Administration at Bowling Green State University. During 1953-54, my second year in residence at The Ohio State University while partially completing the requirements for the degree Doctor of Philosophy, I acted in the capacity of assistant to Professor John E. Steele, Commerce Placement Director. Since September, 1954, I have held the position of Assistant Professor of Industrial Management at Miami University, Oxford, Ohio.