Perceptions towards Codes of Behaviour: A Study of CAOs, CFOs and Other Employees in Bahrain

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Abstract

The objective of this study is to investigate the factors that affect Chief Accounting Officers (CAOs), Chief Financial Officers (CFOs) and other employees' perception of codes of behavior in their organizations in the Kingdom of Bahrain and whether an ethical work environment is influenced by factors such as the establishment of a code of behavior, corporate ethics committee, and/or policy empowerment. The paper is interpretive in nature for which data is collected using survey questionnaires. The findings validate components of an effective code of behavior similar to those identified in the literature which include: implementation of codes of behavior, checking on compliance by internal audit committees, achievement of their goals, follow-up on complaints and confidential channels for reporting ethics violations. Also, results show that the organizations under study generally comply with the values in their codes of behavior. However, the results indicate that the ethical work environment as it currently exists in the Kingdom of Bahrain lacks three aspects. First, setting of a code of behavior seems to be a mixed responsibility between legal departments and outside councils, with minimal participation from the employees. Second, the responsibility to check ethics complaints does not necessarily rest with the ethics committee. Third, lack of a robust mechanism that increases accountants' and financiers' awareness of the importance of COE.

Keywords: Accounting Ethics, Code of Ethics, Code of Conduct, Work Environment, Kingdom of Bahrain

1. Introduction

To minimize business and accounting fraud in any organization, there is a need to promote ethical behavior. Ethical deficiency in the accounting profession leads to big disasters in the business world such as Enron, WorldCom and Global Crossing among others. However, it is challenging to balance between private interests and public interests and to avoid accounting fraud (Yen, 2010).

Due to the galloping increase in the number of accounting fraud cases worldwide, corporate codes of behavior – also referred to as corporate codes of ethics or corporate codes of conduct (O'Dwyer and Madden, 2006) – have recently gained legislative momentum and value at both the international and national levels.

At the international level, for example, the Sarbanes-Oxley (SOX) Act of 2002, which became Public Law 107-204 in 2002, is issued with the primary goal of protection of investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws. Section (406) of the SOX Act directed the Securities and Exchange Commission (SEC) to issue rules requiring an issuer of financial reports to disclose whether it had adopted a code of ethics (COE) for its senior financial officers, including its principal financial officer or principal accounting officer. Another example is the 2006 draft issued by the International Federation of Accountants (IFAC) as guidance to help companies develop and implement a code of conduct.

At the national level, the Central Bank of Bahrain (CBB), which is the sole regulator for the financial sector in the Kingdom of Bahrain, requires that an audit committee be formed and preferably there be at least one qualified accountant in the committee. Among the responsibilities of the committee is to review and supervise the operation of the financial institutions' code of conduct. (CBB Rulebook, Volume 1, 2007).

The main differences among the SOX Act, SEC Release and CBB Rulebook related to enhancement of corporate governance are summarized in the Appendix.

For there to be an effective ethical work environment, the implementation of several steps should occur. The COE of the International Federation of Accountants (IFAC), American Institute of Certified Public Accountants (AICPA), Institute of Internal Auditors (IIA), Institute of Management Accountants (IMA) and EDP Auditors Association set the ethical requirements for professional accountants and provide a conceptual framework and concrete guidelines for all professional accountants to ensure conformity with the five fundamental principles of professional ethics. These principles are integrity, objectivity, professional competence, confidentiality, and professional behavior. The first step towards effective ethical work environment is the establishment of a code of conduct, a corporate ethics committee, and a policy empowering the internal audit group to verify compliance with the code as part of its responsibility. The second step is continuous training in dealing with ethical dilemmas. The third and most significant step is a willingness to accept responsibility for one's behavior.

In light of the above, this paper discusses the existence of corporate codes of behavior in the

workplace in the Kingdom of Bahrain; and if they exist, how are they developed and perceived by the accountants and other employees in the organizations? The paper is interpretative in nature since it attempts to address an issue identified by Muel Kaptein et. al (2008) that for companies a business code is not an instrument that stands in isolation of others and it could even be said that in and of itself it is meaningless: the process of developing and implementing the code is pivotal.

How codes of behavior are received and interpreted may be influenced, to some extent, by the existence of an ethical culture in the business, professionalism and a distinct corporate philosophy. Schlegelmilch and Houston (1989) believe that all three exist in British businesses. The same environment may currently exist in the Kingdom of Bahrain; or if not, may be promoted in businesses in operation.

The specific research questions dealt with in this paper are as follow:

1.   Does an ethical work environment exist in the Kingdom's business institutions through the establishment of a code of behavior, corporate ethics committee, and/or policy empowerment within organizations?

2.   What are the weaknesses and the potential problem areas in the Kingdom's business institutions' ethics environment?

3.   What are the important components of an effective code of behavior for the Kingdom's business institutions?

4.   To what extent has there been compliance to the values in codes of behavior in the Kingdom's business institutions?

5.   To what extent code of conducts are important for the accounting and financial officers?

The remainder of this paper is organized as follows. Section 2 presents prior international research on ethical codes, followed by Section 3 to describe data and the research methods employed in the study, whereas Section 4 details research findings. Section 5 concludes the study.

2. Literature Review

In the last decade of the 20th century, research on business ethics was receiving greater attention (Dunfee and Werhane, 1997). First descriptive study on the ethical behavior of managers was published in 1961 (Baumhart, 1961). The globalization of business and a corresponding increase in ethical conflicts faced by multinational firms such as Nestle, Union Carbide, Enron, WorldCom etc. have spurred research interest in international business ethics.

Many studies attempted to define a corporate code of behaviour such as Pitt and Groskaufmanis (1990) defined it as "any written statement of ethics, law, or policy (or some combination thereof), delineating the obligations of one or more classes of corporate employees".

Codes of behavior are of two types; namely, Codes of Ethics (COE) and Codes of Conduct (COC). The former (value-based code) outlines principles to guide action while the later (rules-based code) specifies principles to be obeyed (Robin et al., 1989; Farrell and Cobbin, 1996).

In the mid-1970s, the USA was the first major country in the world to experience an extensive movement among large business enterprises in the utilization of COE in their operations. In a study covering several countries such as the US, Canada, Europe, Japan and Australia, Berenbeim (1988) found that companies' COE were less prevalent outside the US and Canada. Beside utilization of COE in business operations it seems that there appears to be a need to understand how the code is 'received' and interpreted by those whose behavior and attitudes it is presumably intended to influence" Cassell et al. (1997).

The first authoritative research produced was from a study by Cressey and Moore (1983) which, among other things, sought to discover corporate executives' views on what it meant to act ethically. Hite et al. (1988) examined the content of 67 ethics codes among Fortune 500 corporations. Their findings indicated frequent misuse of funds and improper accounting, conflicts of interest, political contributions and confidential information. Lefebvre and Singh (1992) observed that it was only recently that specific studies had been undertaken to investigate the content of corporate codes of ethics in North America.

In contrast to the USA research findings, Schlegelmilch and Houston (1989) studied, among other things, the respondents' attitudes towards COE in the UK. They observed that little research had been conducted in the UK on business ethics in general and corporate codes of ethics in particular. This was due to the fact that at that time codes of ethics were not as widely used in the UK. COE was viewed as too general and too broad to be reliable or of any use. Fisher (2001) studied managers' perceptions of ethical codes and concluded that, in various ways, both COE and COC contribute to a loss of personal ethical responsibility on the part of employees. In particular, COE undermined or challenged personal integrity, and COC restricted and limited the development of wider loyalties.

Similar studies were conducted in Europe. For example, Langlois and Schegelmilch (1990) surveyed corporate codes in France, Germany and the UK. The codes tended to have "conduct" in their names rather than "ethics". Their findings suggested that there could be difficulties encountered in developing codes for multinational corporations.

In Australia, research into corporate codes has been sparse. Kaye (1992) findings indicated that very few of the firms had COE. Wood (2000) reported that the Australian corporate codes were not distinctly Australian.

In South America, the study by Yuri et.al. (2012) of shape and content of ethic codes in Colombian oil industry indicated that the codes are grouped into three blocks according to their structure: codes of conduct of multinational companies; codes of conduct of local companies with international ambitions; codes of conduct of small local companies. They concluded that codes of global companies are extensive and legalistic. Codes of local companies with international ambitions are short and legalistic while codes of small local

companies are short and missionary. Virtually all codes have their roots in the utilitarian ethics.

Al-Khatib et al. (2001) studied business ethics in three Arab Gulf States; namely, Saudi Arabia, Oman and Kuwait. The findings report that ethical judgments and behaviors are influenced by "an employee's ethical ideology". As such, an employee who is idealistic is expected to exhibit less unethical behavior and vice versa.

To sum up, the literature surveyed so far indicates that there is a substantial presence of corporate codes in many countries such as the US, UK, Canada and Australia. However, more recent research has indicated that there is a gap between the existence of explicit ethical codes and the attitudes and behavior of the organizations (Simon Webley and Andrea Werner 2008; Lawrence 2006; McNulty 2006).

3. Data and Research Methodology

Data is collected from a random sample of organizations operating in Bahrain. To minimize sampling bias, organizations are chosen carefully to cover various types of organizations such as those which are listed in the Bahrain Stock Exchange and which are not; local and international organizations; banks and non-banking firms; and small, medium and large sized companies.

A questionnaire is developed incorporating variables identified in the literature as factors that influence the perception of employees towards COB. The questionnaires are distributed by hand and collected from 207 respondents, which constitute the population under study. To minimize any bias in the responses, the questionnaire targets respondents holding different positions in the organization. Table 1 provides background information about the respondents and their organizations.

3.1 Demographics

Table 1 summarizes the general characteristics of the respondents. It is observed that most of the respondents (49.27%) are from the banking sector, followed by service sector (21.26%). This is expected since the Kingdom of Bahrain is known as an international financial market.

Table 1. Profile of the Sample

	Frequency (%)
Sectors	
Banking	102 (49.3%)
Investment	24 (11.6%)
Insurance	15 (7.3%)
Service	44 (21.3%)
Industrial	22 (10.6%)
Location of the firm	
Local	53 (25.7%)
International	153 (74.3%)
Stock Market	
Listed in stock market	96 (47.3%)
Not listed in Stock market	107 (52.7%)
Size of the Organization (measured by # of employees)	
L < 100	63 (36.4%)
100 < L < 500	77 (44.5%)
L > 500	33 (19.1%)
Position	
Chief Executive Officer	16 (7.8%)
Chief Financial Officer	23 (11.2%)
Chief Administrative Officer	11 (5.3%)
Chief Accounting Officer	19 (9.2%)

Furthermore, 74.27% of the respondents are from organizations that have branches outside the Kingdom of Bahrain, while 47.29% are from organizations listed on the local stock exchange. The fact that the majority of the respondents are from international organizations may have an impact on the results since codes of behavior are more developed and expected to be practiced. Also, 65.70% of the respondents are from relatively large organizations with more than one hundred employees. Finally, most of the respondents occupied positions other than senior ones. The category "Other" (66.5%) included human resource employees and auditors.

4. Results and Discussion

The respondents are asked to express their opinion on twenty three statements on business ethical behaviors on a five-point scale: 1 (never) to 5 (always). The collected data is analyzed first using descriptive statistics (frequency and percentages). Then analysis of variance is conducted with nature of business as the only factor and the responses to the twenty three statements on COE perspectives as dependent variables to test the null hypotheses that there are no differences in the employees' perception on ethical values in various organization in the Kingdom of Bahrain.

4.1 Descriptive Analysis

A perusal of Table 2 shows that 52.66% of the respondents believe that their organizations have not adopted a COE, while a majority (68.60%) of them has adopted COC. This indicates that organizations operating in the Kingdom of Bahrain are more sensitive to the importance of COC which is rule-based code than COE which is value-based code. Furthermore, these findings concur with the findings of Farrell and Cobbin (2000) in which most of their respondents adopted a rule-based code.

Table 2. Type, Existence and Reasons of Code of Behavior

	No (Percent)	Yes (Percent)
Type of Code of Behavior:		
Code of Ethics (COE)	109 (52.66%)	98 (47.36%)
Code of Conduct (COC)	65 (31.40%)	142 (68.60%)
None	201 (97.10%)	6 (2.90%)
Existence of Code of Behavior for the		
Board of Directors	172 (85.57%)	29 (14.43%)
Chief Executive Officers	178 (88.56%)	23 (11.44%)
Chief Financial Officer	172 (85.57%)	29 (14.43%)
Chief Administrative Officers	183 (91.04%)	18 (8.96%)
Chief Accounting Officer	176(87.56%)	25(12.44%)
All employees	28 (13.93%)	173(86.07%)

Reasons for Setting a Code of Behavior		
Prevent misconduct	77(38.31)	124(61.69)
Avoid crisis	93(46.27)	108(53.73)
Good behavior	98(49.00)	102(51.00)
Guide employees	90(44.78)	111(55.22)
Protect public	134(66.67)	67(33.33)
Protect consumers' and suppliers' interests	112(55.72)	89(44.28)
Control conduct	97(48.26)	104(51.74)
Others	188(93.53)	13(6.47)

It seems that most of the organizations have adopted an overall code of behavior for their employees (86.07%); that is, a code of ethics together with a code of conduct. Few respondents indicated that a code of behavior had been adopted for top management such as Board of Directors, Chief Executive Officers, etc. (Table 2). This result may indicate that organizations focus on the existence of COB for lower level management rather than top management. Furthermore, most of the respondents believe that, to a lesser extent, setting a COB protects the public and it controls behaviors.

Table 3 shows that most of the codes of behavior (42.39%) had been initiated as late as 2000, indicating the recent awareness of the organizations regarding this matter. The results in Table

3 further highlight that a majority of the respondents (94.5%) perceive that the code of behavior should be set for all employees so as to prevent misconduct, avoid crisis, encourage good behavior, guide employees and protect consumers and suppliers' interests.

Table 3. Date of Initiating Code of Behavior and Its Need

	Number of respondents (%)
Date of Initiating Code of Behavior	
2000-2010	39 (42.4%)
1990-1999	20 (21.7%)
1980-1989	20 (21.7%)
1970-1979	13 (14.1%)
Need for Code of Behavior	
Yes For all employees	189 (94.5%)
Yes for Chief Accounting and Finance Officers only	7 (3.5%)
No need	4 (2%)

4.1.1 Evaluation of ethical work environment

Considering the importance of a strong foundation of ethics, the study investigated the existence of the ethics environment in the organizations under study. This was accomplished by studying and analyzing (Tables 4, 5) factors identified in the literature as components of ethics environment. The strengths and weaknesses of the ethics environment are deduced therein.

Table 4 shows that most of the respondents (63.45%) indicated that an ethics committee/officer exists in their organizations and most of these committees (93.72%) have at least one financial expert as a member. This result is in line with the recent legislatives at both national and international levels, as outlined at the beginning of this study.

Furthermore, Table 4 reveals one of the weaknesses of the ethics environment under study. The setting of the code of behavior seems to be a mixed responsibility between legal departments and outside councils, with minimal participation from the employees (15.92%). This may be a drawback or a cause for potential problem for the organization. It may be better for the organization to establish a code of behavior where the rules are set by the ruled and hence may promote more positive behavior from the employees towards the code of behavior within their organizations.

Table 4. Components of Ethics Environment

	No	Yes
Existence of Ethics Committee/Officer	72 (36.6%)	125 (63.5%)
Existence of One Financial Expert	12 (6.3%)	179 (93.7%)
Setting of Code of Behavior		
Legal Department	117(58.21)	84(41.79)
Outside Counsel	143(71.14)	58(28.86)
Board of Directors	135(67.16)	66(32.84)
Employee Participation	169(84.08)	32(15.92)
Chief Executive Officers	142(70.65)	59(29.35)
Others	152(75.62)	49(24.38)
Global Code of Behavior	61 (30.8%)	137 (69.2%)

Finally, the fact that the code of behavior is global strengthens the ethics environment 69.19% since it is available in more than one language.

A further weakness deduced from the results of Table 5 is that the responsibility to check ethics complaints does not lie with the ethics committee (25.89%). On a more positive note, most of the respondents (70.16%) indicated that the main responsibility for updating the code of behavior lies with the internal parties who may be better acquainted with the ethics environment.

Table 5. Components of Ethics Environment (continued)

	Number of Respondents (%)
Responsibility to Check on Complaints	
Ethics Committee	51 (25.9%)
Internal Auditor	40 (20.3%)
Other	106 (53.8%)
Responsibility to Update Code of Behavior	
External Auditors	18 (9.4%)
Other External Parties	11 (5.8%)
Internal Parties	134 (70.2%)

4.1.2 Components of an effective code of behavior

Cassell et al. (1997) stated that "There appears to be a need to understand how the code is 'received' and interpreted by those whose behavior and attitudes it is presumably intended to influence". Whether an employee is receptive to a code of behavior or not depends on the boundaries that employee is ready to accept for any ethic-related code.

In other words, should codes of behavior set by an organization apply to work only or be extended to cover the personal life as well. To understand the boundaries set by the respondents in this study, a question was addressed regarding the monitoring of the employees' behavior during and after office hours. It is revealed that more than 50 percent of the respondents believe that the code of behavior should monitor their behavior during work

only and not in their personal lives.

Given the boundaries set by the respondents for code of behavior developed by their organizations, Tables 6 and 7 attempted to audit the organization's ethics environment and then identify the important components of an effective code of behavior respectively.

Table 6. Employees' General Perceptions about Codes of Behavior

Variable	Frequently	When Needed	Sometimes	Rarely	Never
Implemented	123(62.44)	52(26.40)	15(7.61)	3(1.52)	4(2.03)
Training to deal with dilemmas	57(28.79)	72(36.36)	35(17.68)	16(8.08)	18(9.09)
Internal audit committee checks on compliance	80(42.11)	65(34.21)	21(11.05)	15(7.89)	9(4.74)
Updating	51(26.02)	101(51.53)	19(9.70)	17(8.67)	8(4.08)
Ethical behavior rewarded	45(23.44)	17(8.85)	62(32.29)	36(18.75)	32(16.67)
Accessible to external parties	33(17.55)	47(25.00)	18(9.57)	23(12.24)	67(35.64)
Disclosure policies coordinated with audit committee	57(31.32)	61(33.52)	43(23.63)	12(6.59)	9(4.94)
Goals achieved	85(45.45)	31(16.58)	56(29.95)	10(5.35)	5(2.67)
Follow up on complaints	90(46.88)	59(30.73)	20(10.41)	13(6.77)	10(5.21)
Confidentiality of violations	96(50.79)	51(26.98)	23(12.17)	13(6.88)	6(3.18)
Detections of violations	38(21.23)	32(17.88)	49(27.37)	47(26.26)	13(7.26)

Clark (2004) proposed performing an audit of a company's ethics environment and suggested some guidelines to do so. Table 6 contains information based on some of Clark's suggestions.

The findings indicate that, of the eleven variables studied, it seems that respondents believe that five of them exist in their organizations' codes of behavior. They include: implementation of codes of behavior, checking on compliance by an internal audit committee, achievement of their goals, follow-up on complaints and confidential channels for reporting ethics' violations.

The key components of an effective code of behavior program that integrates positive values throughout an organization have been identified by Messmer (2003). These components were also investigated in this study. It seems that Messmer's respondents attached high importance to all components (Table 7). This is evident since 74.24% of the respondents were in agreement that leaders should set the examples for the other employees in the organization by following codes of behavior. The consistent application to all employees was also strongly supported (70.35%) in this study.

Table 7. Importance Attached by Employees to Effective COE Program Components

Variable	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Leaders set the example	147(74.24)	32(16.16)	16(8.08)	2(1.01)	1(0.51)
Ethics as core value	141(71.57)	45(22.84)	8(4.06)	2(1.02)	1(0.51)
All participate in setting code of behavior	86(43.65)	59(29.95)	27(13.71)	18(9.14)	7(3.55)
Application of code of behavior consistently to all employees	140(70.35)	40(20.10)	9(4.53)	5(2.51)	5(2.51)
Employees feel safe to share concerns	115(57.79)	62(31.16)	11(5.53)	6(3.01)	5(2.51)

4.1.3 Compliance to codes of behavior

In general, organizations' compliance with codes of behavior including accounting ethics is perceived by respondents to be frequently adhered to integrity, confidentiality, independence, technical Standards, professionalism, public Interest and conflict of interest (Table 8).

Table 8. Employees Perception about Compliance to Codes of Behavior

Values	Frequently	When Needed	Sometimes	Rarely	Never
Integrity	150(76.14)	28(14.21)	14(7.11)	2(1.02)	3(1.52)
Confidentiality	159(80.30)	26(13.13)	8(4.04)	4(2.02)	1(0.51)
Independence	142(73.20)	36(18.56)	10(5.15)	5(2.58)	1(0.52)
Technical Standards	136(69.74)	38(19.49)	14(7.18)	5(2.56)	2(1.03)
Professionalism	148(76.68)	23(11.92)	12(6.22)	6(3.11)	4(2.07)
Public Interest	139(71.65)	33(17.01)	13(6.70)	5(2.58)	4(2.06)
Conflict of Interest	131(66.84)	35(17.86)	14(7.14)	12(6.12)	4(2.04)

4.2 Statistical Analysis

The data is further analyzed based on the following characteristics of the companies/employees.

- Local versus international ownership

- CAOs and CFOs versus other employees

- Banking versus non-banking sector

- Listed versus non-listed companies

- Small versus medium versus large companies

Comparisons between means are analyzed with analysis of variance which tests the hypothesis that the group means of the dependent variable are equal.

4.2.1 Local versus international ownership

There are 53 firms owned by Bahrainis and 153 internationally owned firms operated in Bahrain.

Table 9. Comparisons of Perceptions by Local versus International Companies

Variables	Mean Groups		t-value
	Local	International	
Are COE implemented?	4.54	4.43	0.81
Do your employees get training in how to deal with COE dilemmas?	3.27	3.80	2.70*
Does the internal audit committee check on compliance with COE?	3.78	4.08	1.57
How often are the COE updated?	3.67	3.93	1.55
Is ethical behavior rewarded?	2.69	3.15	2.05**
Is there access to COE by external parties via financial reports, Internet etc.?	2.09	3.01	3.60*
Are all ethics policies related to disclosure coordinated with the audit committee?	3.48	3.90	2.21**
Do you think that the existing COE achieve their goals?	3.66	4.08	2.28**
Is there a follow-up on any filed complaints related to COE?	3.71	4.20	2.58*
Do confidential channels exist for reporting ethics violations?	3.72	4.29	3.18*
How often are COE violations detected?	3.13	3.22	0.42
In your opinion, does your organization comply with the following values in COE:			
Integrity	4.71	4.59	0.86
Confidentiality	4.73	4.70	0.34
Independence	4.67	4.59	0.59
Technical standards	4.56	4.53	0.21
Professionalism	4.60	4.57	0.15
Public interest	4.49	4.55	0.39
Conflict of interest	4.42	4.41	0.05
How do you perceive the importance of the following:			
leaders set the example	4.73	4.59	1.24
ethics is a core value	4.80	4.58	2.03**
everyone participates in setting COE	4.04	4.00	0.22
COE is applied consistently to all employees	4.56	4.52	0.27
employees feel safe to share concerns	4.46	4.36	0.63

* Significant at 0.01 ** Significant at 0.05   *** Significant at 0.01

Table 9 shows that several variables emerged as significantly different at the 0.01, 0.05 and 0.1 levels between local and international organizations.

It appeared that international organizations provided training to their employees in how to deal with COE dilemmas more than their local counterparts (t= 2.7, p<0.01). This is expected since the international organizations have broader exposure to the issue of ethics in the work environment and hence may well be aware of the importance of training to their employees in this respect. The employees in international organizations who have been trained on how to deal with COE dilemmas may also be aware of the importance of any violations of COE. This is depicted in the variable the employees in the international organizations indicated awareness of the existence of a follow-up procedure on any filed complaints related to COE (t=2.58, p<0.01).

To further understand the previous findings, the study investigated the set-up of the ethics policies and the parties involved in developing them. The results indicated that international organizations may have developed effective COE more than local organizations because they have developed ethics policies that are coordinated with their audit committees (t=2.21, p<0.05).

Finally, in comparison with international organizations, employees in local organizations perceived ethics as a core value (t=2.03, p<0.05). This result may support the argument that codes of behavior may be unnecessary and that an ethical culture, a distinct corporate philosophy and professionalism are deeply valued in the Bahraini business environment that can be promoted without a formal code of ethics.

4.2.2 CAOs and CFOs versus other employees

The results of the comparison between accountants' perception towards key components of an effective COE vis-à-vis other employees were generally insignificant. As such, it may be deduced that irrespective of the employee's specialization, all employees carry the same perception towards COE in their respective organizations. However, because of the recent scandals involving the accounting profession and hence the sensitivity of the accountant position in the organization, then organizations in Bahrain may need to develop a more robust mechanism that would increase the awareness of accountants in particular towards the importance of COE.

Table 10. Comparisons of Perceptions by Accountants versus Other employees

Variable	Mean Groups		t-value
	Others	CAOs & CFOs	
Are COE implemented?	4.78	4.41	2.01**
Do your employees get training in how to deal with COE dilemmas?	4.19	3.79	1.51
Does the internal audit committee check on compliance with COE?	4.28	4.16	0.44
How often are the COE updated?	4.00	3.82	0.74
Is ethical behavior rewarded?	3.08	3.00	0.21
Is there access to COE by external parties via financial reports, Internet etc.?	2.60	2.53	0.20
Are all ethics policies related to disclosure coordinated with the audit committee?	3.92	3.59	1.23
Do you think that the existing COE achieve their goals?	4.28	3.82	1.57
Is there a follow-up on any filed complaints related to COE?	4.44	4.00	1.44
Do confidential channels exist for reporting ethics violations?	4.26	3.97	1.01
How often are COE violations detected?	3.30	3.00	0.91
In your opinion, does your organization comply with the following values in COE:			
Integrity	4.67	4.68	0.05
Confidentiality	4.63	4.84	1.39
Independence	4.67	4.72	0.37
Technical standards	4.70	4.50	1.12
Professionalism	4.63	4.61	0.08
Public interest	4.67	4.51	0.72
Conflict of interest	4.59	4.51	0.35
How do you perceive the importance of the following:			
leaders set the example	4.89	4.54	2.10**
ethics is a core value	4.74	4.53	1.36
everyone participates in setting COE	4.30	3.87	1.47
COE is applied consistently to all employees	4.59	4.46	0.60
employees feel safe to share concerns	4.52	4.38	0.63

* Significant at 0.01 ** Significant at 0.05   *** Significant at 0.1

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4.2.3 Banking versus non-banking sector

As reported in Table 1, 50% of the respondents work in the banking sector which is a dominant industry in Bahrain.

Many variables in Table 11 appear different between banking and non-banking firms at the 1%, 5% and 10% levels of significance. It is found that as compared to the non-banking sector, the banks in Bahrain act more responsibly in the implementation of code of ethics. They provide training to their employees about COE and internal audit committee keeps an eye on the compliance with COE. The findings are statistically significant at 1% level. It is also observed that the banks' employees are confident that COE violations are detected promptly and the existing COE achieve their goals (significant at 5% and 10% level respectively).

Interestingly, the respondents are confident that in their banks COE values such as Integrity, Confidentiality, Technical standards, Professionalism, Public interest and Conflict of interest prevail (statistically significant at 1% and 5% levels). Furthermore, employees see ethics as core value of COE and they have no reservations in the implementation of COE to all employees and if they have any concern in this regard, they can freely give their opinions.

Table 11. Comparisons of Perceptions by banking versus Non-banking Sector

Variable	Mean Groups		t-value
	Banking	Non-banking	
Are COE implemented?	4.65	4.25	3.3*
Do your employees get training in how to deal with COE dilemmas?	3.92	3.42	2.95*
Does the internal audit committee check on compliance with COE?	4.29	3.68	3.85*
How often are the COE updated?	3.94	3.79	1.05
Is ethical behavior rewarded?	2.95	3.13	0.91
Is there access to COE by external parties via financial reports, Internet etc.?	2.76	2.78	0.09
Are all ethics policies related to disclosure coordinated with the audit committee?	3.86	3.72	0.87
Do you think that the existing COE achieve their goals?	4.10	3.82	1.76***
Is there a follow-up on any filed complaints related to COE?	4.02	4.13	0.66
Do confidential channels exist for reporting ethics violations?	4.09	4.21	0.75
How often are COE violations detected?	3.38	3.00	2.08**
In your opinion, does your organization comply with the following values in COE:			
Integrity	4.83	4.40	3.87*
Confidentiality	4.84	4.56	2.99*
Independence	4.65	4.57	0.73
Technical standards	4.67	4.41	2.22**
Professionalism	4.74	4.41	2.57**
Public interest	4.74	4.32	3.38*
Conflict of interest	4.71	4.09	4.56*
How do you perceive the importance of the following:			
leaders set the example	4.71	4.54	1.61
ethics is a core value	4.75	4.52	2.49**
everyone participates in setting COE	4.06	3.96	0.63
COE is applied consistently to all employees	4.74	4.31	3.45*
employees feel safe to share concerns	4.60	4.16	3.54*

 * Significant at 0.01 ** Significant at 0.05 *** Significant at 0.1

4.2.4 Listed versus non-listed companies

There are 96 participating companies which are listed in the stock market, making 52.7% data

generated from non-listed companies. Many of the findings are significant (Table 12).

Table 12. Comparisons of Perceptions by listed versus non-listed Companies

Variable	Mean Groups		t-value
	Not-listed	Listed	
Are COE implemented?	4.48	4.41	0.59
Do your employees get training in how to deal with COE dilemmas?	3.86	3.43	2.44**
Does the internal audit committee check on compliance with COE?	4.02	3.98	0.26
How often are the COE updated?	3.92	3.80	0.81
Is ethical behavior rewarded?	3.36	2.71	3.34*
Is there access to COE by external parties via financial reports, Internet etc.?	2.94	2.56	1.65***
Are all ethics policies related to disclosure coordinated with the audit committee?	3.77	3.79	0.08
Do you think that the existing COE achieve their goals?	4.09	3.87	1.36
Is there a follow-up on any filed complaints related to COE?	4.16	3.99	1.03
Do confidential channels exist for reporting ethics violations?	4.22	4.12	0.66
How often are COE violations detected?	3.40	2.96	2.32**
In your opinion, does your organization comply with the following values in COE:			
Integrity	4.67	4.55	1.04
Confidentiality	4.74	4.66	0.72
Independence	4.64	4.58	0.49
Technical standards	4.59	4.48	0.89
Professionalism	4.62	4.52	0.71
Public interest	4.57	4.48	0.71
Conflict of interest	4.40	4.40	0.01
How do you perceive the importance of the following:			
leaders set the example	4.60	4.63	0.29
ethics is a core value	4.70	4.56	1.48
everyone participates in setting COE	4.07	3.92	0.89
COE is applied consistently to all employees	4.56	4.49	0.50
employees feel safe to share concerns	4.42	4.34	0.59

* Significant at 0.01 ** Significant at 0.05   *** Significant at 0.1

Nonetheless, we observe that non-listed companies are more aware of the importance of COE

and listed companies are aware but to a lesser extent. Non-listed firms reward good behaviors, detect COE violations and train their employees to deal with COE dilemma.

4.2.5 Small, medium and large companies

In our analysis, we divide companies with respect to their number of employees. Large firms employ more than 500 skilled and unskilled workers, medium size firms have between 100 and 500 employees while the small firms are hiring around 100 employees. The number of respondents from various types of firms are reported in Table 1. When compared, their means are significantly different from each other for various variables. We observe that small and medium sized firms are applying COE more than the larger firms (Table 13). This observation is in line with the findings that listed companies are not significantly implementing, training or detecting COE in their organizations. (Table 12).

Table 13. Comparisons of Perceptions by Small, Medium and Large Companies

Variable	Mean Groups			t-value
	L<100	100>L<500	L>500	
Are COE implemented?	4.71	4.43	4.09	2.35*
Do your employees get training in how to deal with COE dilemmas?	3.83	3.88	3.00	2.63*
Does the internal audit committee check on compliance with COE?	4.19	3.94	3.58	1.76**
How often are the COE updated?	3.93	3.97	3.31	2.30**
Is ethical behavior rewarded?	2.91	3.17	2.82	0.98
Is there access to COE by external parties via financial reports, Internet etc.?	2.71	2.93	2.55	0.82
Are all ethics policies related to disclosure coordinated with the audit committee?	3.88	4.00	3.17	2.49*
Do you think that the existing COE achieve their goals?	3.85	4.23	3.47	2.32*
Is there a follow-up on any filed complaints related to COE?	3.81	4.26	4.32	1.88**
Do confidential channels exist for reporting ethics violations?	3.78	4.42	4.19	2.34*
How often are COE violations detected?	3.17	3.30	3.03	0.68
In your opinion, does your organization comply with the following values in COE:				
Integrity	4.81	4.58	4.50	1.46
Confidentiality	4.75	4.65	4.82	0.83
Independence	4.61	4.59	4.64	0.22
Technical standards	4.57	4.65	4.27	1.52***
Professionalism	4.74	4.61	4.24	1.81**
Public interest	4.62	4.59	4.39	0.87
Conflict of interest	4.53	4.48	4.12	1.39
How do you perceive the importance of the following:				
leaders set the example	4.66	4.58	4.79	0.98
ethics is a core value	4.84	4.63	4.61	1.57***
everyone participates in setting COE	3.88	4.07	4.30	1.25
COE is applied consistently to all employees	4.68	4.66	4.12	2.30**
employees feel safe to share concerns	4.44	4.45	4.06	1.53***

* Significant at 0.01   ** Significant at 0.05   *** Significant at 0.1

5. Summary and Conclusions

The main objective of this study is to investigate the perceptions of employees related to

codes of behavior and accounting ethics in the Kingdom of Bahrain. In particular, the study focused on four main issues. First, an examination was conducted as to whether an ethical work environment exists through the establishment of: a code of behavior, corporate ethics committee, and policy empowerment. The existence of an ethical work environment was validated by the results of the study. Three main weaknesses in the ethics environment of some organizations were identified: (1) setting of the code of behavior seems to be a mixed responsibility between legal departments and outside councils, with minimal participation from the employees, (2) the responsibility to check ethics complaints does not lie with the ethics committee and (3) lack of a robust mechanism that enhances financiers' and accountants' awareness about the importance of accounting ethics. Additionally, some important components of an effective code of behavior were identified such as implementation of codes of behavior, checking on compliance by an internal audit committee, achievement of their goals, follow-up on complaints and confidential channels for reporting ethics violations. Finally, results revealed that the organizations under study generally comply with the values in their codes of behavior.

Overall, the results indicate that international organizations operating in Bahrain, banks and relatively smaller firms may to a great extent, be in line with what has been identified as factors essential for the existence of an effective ethical work environment.

It is pointed out that the use of questionnaires may limit the generalization ability of the results and replication of the study or use of different methodologies may enhance the results.

This study may set the foundation for further research in this area in the Kingdom of Bahrain. In particular, a follow-up may be conducted to investigate the sustainability of COE in an ever-changing financial environment and whether more rigorous COE should be developed to enhance the importance of its existence within the organization. Additionally, factors identified by other researches such as the degree of idealism in employees (Al Khatib et. al 2002) should also be considered.

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APPENDIX

Comparative Analysis of Information Related to Code of Behaviour

The main differences between the SOX Act, SEC Release and CBB circular related to enhancement of corporate governance are summarized below.

REQUIREMENT	SOX ACT (SECTION 406)	SEC	CBB
Adopt Code of Behaviour for??	Principal financial officer or principal accounting officer	Principal executive officers and senior financial officers	Board of Directors, senior management and employees
Implementation date	30th July 2002	Fiscal year ending on or after 15th July 2003	1st January 2005
Suggested content	Not addressed in Section (406).	Details are not specified. The decision as to specific provisions of each issuer's COE should be made by the issuer itself.	• Commitment to the code • Commitment to the law and best practice standards. • Employment practices e.g. health and safety • How the company deals with disputes and complaints from clients and polices the code • Confidentiality
Disclosure	Not addressed in Section (406).	Annual Report, Form 8-K or on its Internet website.	Communicated throughout the organization.
Audit Committee	Not addressed in Section (406).	• At least one audit committee financial expert. • The name of the expert must be disclosed.	• Preferably, there should be at least one qualified accountant in the committee. • Among committee's responsibilities is to review and supervise the operation of the COE.