

# Corporate Culture versus Preventive Activity

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For a last decade, many corporate scandals have been appearing in the United States and also in other countries. As responses to these scandals, some policies have been designed. The organizational guidelines by US sentencing commission are one of them. The organizational guidelines are intended to encourage organizations including corporations, labor unions, pension funds and the like to develop organizational cultures that discourage criminal act. The guidelines give organizations incentive to prompt the organizational cultures by mitigating the potential fines if an organization can reveal that it had put an effective compliance program in place.

There are some internal measures against misconducts by workers in firms. One of the internal measures is the preventive measure through wage scheme or compensation (Arlen and Kraakman. 1997, Polinsky and Shavell. 1993 and Shavell. 1997). Arlen (1994) studies the firm's efforts in detection of workers' misconduct under pure strict liability and shows that there is conflicting in sanction between inducing efficient level of activity and inducing efficient efforts in detection. In addition, another measure by firms is to develop environments in the workplace or corporate cultures that prevent misconduct or promote preventive activity. To enhance such corporate cultures, firms have to make efforts or put in place compliance program. Workers employed in a firm are affected not only by compensation but also by corporate cultures. Higher induce higher safety activity and better cultures also lead to higher safety activity. For the firm, since good corporate cultures lead workers to choose higher safety activity given a compensation, there is an incentive to make efforts or invest to attain such good corporate cultures.

The present paper studies the effects of vicarious liability and fines on the investment by the firm to attain the good corporate culture and the safety activity by the worker. Fines intended by the organizational guidelines to encourage compliance program are examined. Surely such fines facilitate corporate cultures to promote the safety activity of workers or to prevent an accident. We show that the policy enhancing corporate culture to induce more care can reduce the care in some conditions. There is tradeoff between ex ante investment (to achieve the good corporate culture) and ex post safety activity (the appropriate level of care).