

College of Management

Business Ethics

Lecturer: Dr. Raef Baraka

PMG 750

Lecture 07



Chapter 7: ORGANIZATIONAL FACTORS: THE ROLE OF ETHICAL CULTURE AND RELATIONSHIPS

CHAPTER OBJECTIVES:

- **Understand** the concept of corporate culture.
- **Examine** the influence of corporate culture on business ethics.
- **Determine** how leadership, power, and motivation relate to ethical decision making in organizations.

ETHICAL CULTURE

Steps to Promote Good Ethics at Work



Chapter 7: ORGANIZATIONAL FACTORS: THE ROLE OF ETHICAL CULTURE AND RELATIONSHIPS

CHAPTER OBJECTIVES:

- **Assess** organizational structure and its relationship to business ethics.
- **Explore** how the work group influences ethical decisions.
- **Discuss** the relationship between individual and group ethical decision making.

ETHICAL CULTURE

Steps to Promote Good Ethics at Work



ORGANIZATIONAL FACTORS: THE ROLE OF ETHICAL CULTURE AND RELATIONSHIPS

DEFINING CORPORATE CULTURE



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Defining Corporate Culture

Organizational culture includes shared values, norms, and artifacts that influence employees and determine behavior, including ways of solving problems that members (employees) of an organization share.

- **Corporate culture** is “the shared beliefs top managers in a company have about how they should manage themselves and other employees, and how they should conduct their business(es).

How to resolve ethical issues is part of corporate culture.

- Values, beliefs, customs, rules, and ceremonies that are accepted, shared, and circulated throughout an organization represent its culture.
- Leaders are responsible for the actions of their subordinates, and corporations should have ethical corporate cultures.

ORGANIZATIONAL FACTORS: THE ROLE OF ETHICAL CULTURE AND RELATIONSHIPS

Defining Corporate Culture

In many firms, an ethical corporate culture is measured in the following ways:

- Management and the board demonstrate their commitment to integrity, core values, and ethics codes through their **communications and actions**.
- Every employee is encouraged and required to have hands-on involvement in compliance, **especially internal control systems and reporting systems**.
- **Ethical leadership** should start with the tone at the top.
- Employees are expected to receive communication through **resolutions and corrective actions** related to ethical issues.
- Employees can **report policy exceptions** anonymously to any member of the organization, including the CEO, other members of management, and the board of directors.

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Defining Corporate Culture

The problem with these measurement standards is that they focus more on risk, compliance, and reporting.

- They are not a complete measure of the aspects of a company that make up its ethical culture.
- Yet many assume the five aforementioned items define an ethical corporate culture.
- Since values, norms, and artifacts are the three major components of culture that impact behavior, all of these elements are important in measuring an ethical culture.

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Defining Corporate Culture

- In the past 50 years, scholars developed and attempted to measure at least 164 distinct definitions of culture, with recent reviews indicating that the number of definitions has been increasing.

While these definitions of culture vary greatly, they share three common elements:

- **(1)** “Culture is shared among individuals belonging to a group or society.”
- **(2)** “culture is formed over a relatively long period of time,” and
- **(3)** “Culture is relatively stable.”

Different models of culture, and consequently different instruments for measuring it, focus on various levels (national, organizational, individual) and aspects (values, practices, observable artifacts and rituals, underlying implicit assumptions).

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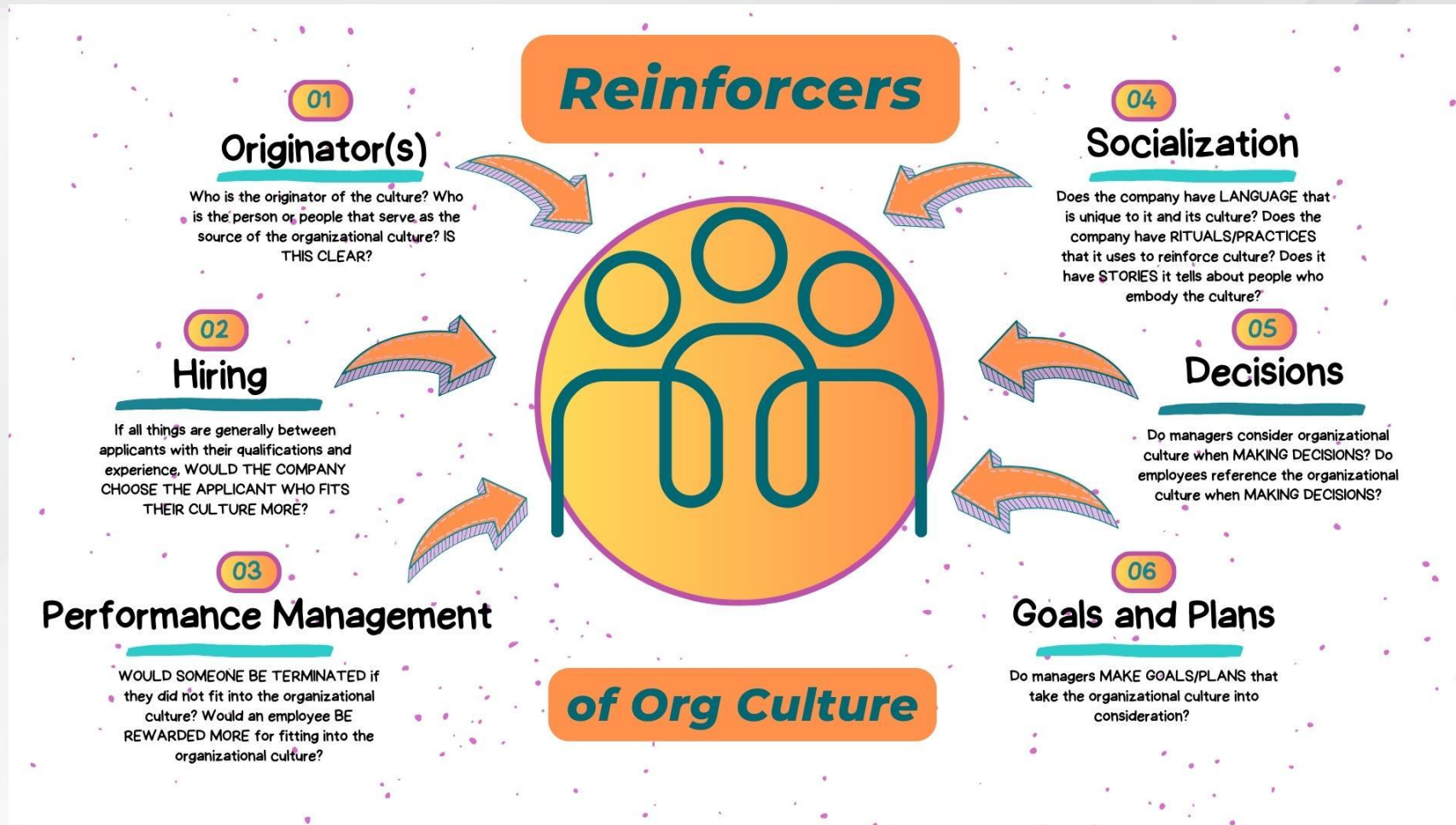
Defining Corporate Culture

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ORGANIZATIONAL FACTORS: THE ROLE OF ETHICAL CULTURE AND RELATIONSHIPS

THE ROLE OF CORPORATE CULTURE IN ETHICAL DECISION MAKING



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The Role Of Corporate Culture In Ethical Decision Making

Corporate culture has been associated with a company's success or failure.

- Some cultures are so strong that to outsiders they come to represent the character of the entire organization.
- For example, Levi Strauss, Ben & Jerry's Homemade Ice Cream, and Hershey Foods are widely perceived as casual organizations with strong ethical cultures, whereas Lockheed Martin, Procter & Gamble, and Texas Instruments are seen as having more formal ethical cultures.

The culture of an organization may be **explicitly** articulated or left **unspoken**.

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The Role Of Corporate Culture In Ethical Decision Making

- **Explicit** statements of values, beliefs, customs, and expected behavior usually come from upper management.

Memos, written codes of conduct, handbooks, manuals, forms, and ceremonies are formal expressions of an organization's culture.

- Many of these statements can be found on company websites, like those of Bristol-Myers Squibb (Table 7-1).
- The company specifically addresses integrating compliance and their principles to impact their culture.

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The Role Of Corporate Culture In Ethical Decision Making

TABLE 7-1 **Bristol-Myers Squibb Principles of Integrity**

Keep patients at the center of all that we do.

Conduct ourselves appropriately in the marketplace.

Apply effective controls to our business activities.

Maintain a diverse, empowered, highly engaged workforce.

Integrate compliance and these principles into our culture.

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The Role Of Corporate Culture In Ethical Decision Making

Corporate culture is often expressed informally through statements, both direct and indirect, that communicate the wishes of management.

- In some companies, shared values are expressed by instituting informal dress codes, working late, and participating in extracurricular activities.

Corporate culture can be expressed through gestures, looks, labels, promotions, programs, and legends (or the lack thereof).

- Many catastrophic events stem from ethical deficiencies resulting in a lack of human value judgments and actions influenced by different corporate cultures.
- When organizational leaders involve lower-level employees in a meaningful role in shaping and maintaining an ethical culture, they are more likely to perceive the culture as strong and view it similarly to the way leaders view it.

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The Role Of Corporate Culture In Ethical Decision Making

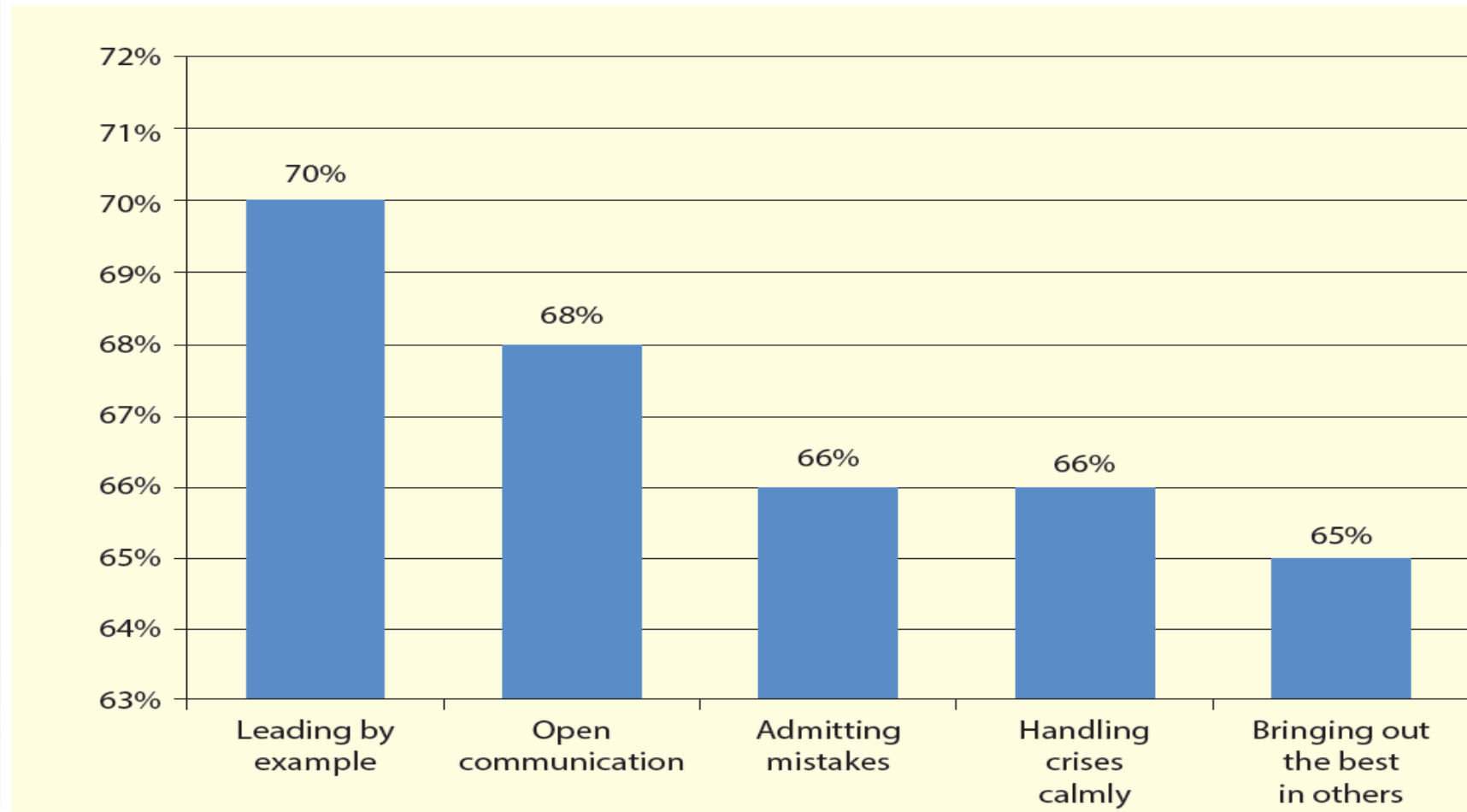
- The “tone at the top” is a determining factor in the creation of a high-integrity organization.
- When leaders are perceived as trustworthy, employee trust increases; leaders are seen as ethical and as honoring a higher level of duties.
- In a survey of global consumers (Figure 7-1), more than 6,000 employees from 13 markets were asked what traits they believe are the most important among leaders.
- The most popular answer was leading by example, followed closely by open communication.

A culture that emphasizes the importance of ethics and social responsibility can reduce misconduct such as earnings manipulation in the finance area.

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The Role Of Corporate Culture In Ethical Decision Making

FIGURE 7-1 Most Important Attributes for Effective Leadership



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Ethical Frameworks and Evaluations of Corporate Culture

- Corporate culture has been conceptualized in many ways. For example, N. K. Sethia and Mary Ann Von Glinow proposed two basic dimensions to describe an organization's culture:
- (1) **concern for people**—the organization's efforts to care for its employees' well-being
- (2) **concern for performance**—the organization's efforts to focus on output and
- employee productivity.
- Figure 7-2 provides examples of companies that display elements of these four organizational cultures.
- **The four organizational cultures can be classified as apathetic, caring, exacting, and integrative.**

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Ethical Frameworks and Evaluations of Corporate Culture

1. **An apathetic culture** shows minimal concern for either people or performance.
 - In this culture, individuals focus on their own self-interest. Apathetic tendencies can occur in almost any organization.
2. **A caring culture** exhibits high concern for people but minimal concern for performance issues.
 - From an ethical standpoint, the caring culture seems appealing. However, it is difficult to find nationally recognizable companies that maintain little or no concern for performance
3. **An exacting culture** shows little concern for people but a high concern for performance; it focuses on the interests of the organization.

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Ethical Frameworks and Evaluations of Corporate Culture

4. **An integrative culture** combines a high concern for people and performance.
 - An organization becomes integrative when superiors recognize employees are more than interchangeable parts—employees have an ineffable quality that helps the firm meet its performance criteria.
 - In this culture, individuals focus on their own self-interest. Apathetic tendencies can occur in almost any organization.
 - Figure 7-2 shows, the four organizational cultures can be classified as apathetic, caring, exacting, and integrative.

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Ethical Frameworks and Evaluations of Corporate Culture

FIGURE 7-2 Company Examples of the Four Organizational Cultures

Ben & Jerry's—A Caring Culture

Ben & Jerry's embraces community causes, treats its employees fairly, and expends numerous resources to enhance the well-being of its customers.

Countrywide Financial—An Apathetic Culture

Countrywide seemed to show little concern for employees and customers. The company's culture appeared to encourage unethical conduct in exchange for profits.

Starbucks—An Integrative Culture

Starbucks always looks for ways to expand and improve performance. It also exhibits a high concern for people through community causes, sustainability, and employee health care.

United Parcel Systems—An Exacting Culture

Employees are held to high standards to ensure maximum performance, consistency of delivery, and efficiency.

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Ethical Frameworks and Evaluations of Corporate Culture

- Companies can classify their corporate culture and identify their specific values, norms, beliefs, and customs by conducting a cultural audit.

A cultural audit is an assessment of an organization's values.

- The audit is usually conducted by outside consultants but may be performed internally as well.
- Communication about ethical expectations and support from top management helps to identify a corporate culture that encourages ethical conduct or leads to ethical conflict.

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ETHICS AS A COMPONENT OF CORPORATE CULTURE

A word cloud centered around the words 'ethical' and 'culture'. The word 'ethical' is in a dark red color, and 'culture' is in a dark blue color. Other words in various shades of brown and blue are arranged around them, including 'variables', 'performance', 'connected', 'learning', 'systems', 'accountability', 'messages', 'human', and 'holistic'.

variables
ethical
performance
connected
learning
systems
accountability
culture
messages
human
holistic

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Ethics As A Component Of Corporate Culture

If a firm's culture encourages or rewards unethical behavior, the employees may act unethically.

- If the culture dictates hiring people with specific, similar values and if those values are perceived as unethical by society, society will view the organization and its members as unethical.

On the other hand, if an organization values ethical behaviors, it rewards them.

- It is important to handle recognition and awards for appropriate behavior in a consistent and balanced manner.

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Ethics As A Component Of Corporate Culture

- Management's sense of an organization's culture may not be in line with the values and ethical beliefs that actually guide a firm's employees.

Table 7-2 provides an example of a corporate culture ethics audit.

- Companies interested in assessing their culture can use this tool and benchmark against previous years' results to measure organizational improvements.

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TABLE 7-2 **Corporate Culture Ethics Audit**

Answer Yes or No to Each of the Following Questions*		
Yes	No	Has the founder or top management of the company left an ethical legacy to the organization?
Yes	No	Does the company have methods for detecting ethical concerns both within the organization and outside it?
Yes	No	Is there a shared value system and understanding of what constitutes appropriate behavior within the organization?
Yes	No	Are stories and myths embedded in daily conversations about appropriate ethical conduct?
Yes	No	Are codes of ethics or ethical policies communicated to employees?
Yes	No	Are there ethical rules or procedures in training manuals or other company publications?
Yes	No	Are penalties for ethical transgressions publicly discussed?
Yes	No	Are there rewards for good ethical decisions even if they don't always result in a profit?

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Yes	No	Does the company recognize the importance of creating a culture concerned about people and their investment in the business?
Yes	No	Does the company have a value system of fair play and honesty toward customers?
Yes	No	Do employees treat each other with respect, honesty, and fairness?
Yes	No	Do employees spend their time working in a cohesive way on what is valued by the organization?
Yes	No	Are there ethically based beliefs and values about how to succeed in the company?
Yes	No	Are there heroes or stars in the organization who communicate a common understanding about which positive ethical values are important?
Yes	No	Are there day-to-day rituals or behavior patterns that create direction and prevent confusion or mixed signals on ethics matters?
Yes	No	Is the firm more focused on the long run than on the short run?

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Yes	No	Do the dress, speech, and physical aspects of the work setting contribute to a sense of consistency about what is right?
Yes	No	Are emotional outbursts about role conflict and ambiguity rare?
Yes	No	Has discrimination and/or sexual harassment been eliminated?
Yes	No	Is there an absence of open hostility and severe conflict?
Yes	No	Do people act on the job in a way consistent with what they say is ethical?
Yes	No	Is the firm more externally focused on customers, the environment, and the welfare of society than on its own profits?
Yes	No	Is there open communication between superiors and subordinates about ethical dilemmas?
Yes	No	Have employees ever received advice on how to improve ethical behavior or been disciplined for committing unethical acts?

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COMPLIANCE VERSUS VALUES-BASED ETHICAL CULTURES

Compliance vs. Values-Based Approaches



Compliance-Based



Values-Based

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Compliance Versus Values-based Ethical Cultures

Compliance-based cultures use a legalistic approach to ethics.

- They use laws and regulatory rules to create codes and requirements.
- Codes of conduct are established with compliance as their focus, with rules and policies enforced by management.

Instead of revolving around an ethical culture, the company revolves around risk management.

- The compliance approach is good in the short term because it helps management, stakeholders, and legal agencies ensure laws, rules, and the intent of compliance are fulfilled.
- A problem with the compliance approach is its **lack of long-term focus on values and integrity**. In addition, it **does not teach employees to navigate ethical gray areas**.

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Compliance Versus Values-based Ethical Cultures

A values-based ethics culture approach to ethical corporate cultures relies upon an explicit mission statement that defines the core values of the firm and how customers and employees should be treated.

- The board of directors, as well as upper management, might add to the general value statements by formulating specific value statements for its strategic business units (SBU), which can be organized by product, geography, or function within the firm's management structure.
- Certain areas may have rules associated with stated values, enabling employees to understand the relationship between the two.

The focus of this type of corporate culture is on values such as trust, transparency, and respect to help employees identify and deal with ethical issues

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DIFFERENTIAL ASSOCIATION



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Differential Association

- **Differential association** is the idea that people learn ethical or unethical behavior while interacting with others who are part of their role-sets or belong to other intimate personal groups.
- The learning process is more likely to result in unethical behavior if the individual associates primarily with persons who behave unethically.
- Associating with others who are unethical, combined with the opportunity to act unethically, is a major influence on ethical decision making, as described in the decision-making framework in Chapter 5.

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WHISTLE-BLOWING



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Whistle-Blowing

- Interpersonal conflict occurs when employees think they know the right course of action in a situation, yet their work group or company promotes or requires a different, unethical decision.

In such cases, employees may choose to follow their own values and refuse to participate in unethical or illegal conduct.

- If they conclude that they cannot discuss what they are doing or what should be done with coworkers or immediate supervisors, and if there is no method of protection for anonymous reporting, these employees may go outside the organization to publicize and correct the unethical situation.

A number of laws exist to protect whistle-blowers.

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Whistle-Blowing

- **Whistle-blowing** means exposing an employer's wrongdoing to outsiders such as the media or government regulatory agencies.
- The term whistle-blowing is sometimes used to refer to internal reporting of misconduct to management, especially through anonymous reporting mechanisms often called **hotlines**.

Legal protection for whistle-blowers exists to encourage reporting of misconduct.

- Whistle-blower laws have provisions against retaliation and are enforced by a number of government agencies.

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Whistle-Blowing

- To be truly effective, whistle-blowing requires that the individual have adequate knowledge of wrongdoing that could damage society.
- It is important to minimize risk to the whistle-blower while dealing with ethical issues.
- **Table 7-3** provides a checklist of questions an employee should ask before going to external sources.
- **Table 7-4** reveals the ways employees can report potential misconduct within an organization.
- Most public companies are creating computer systems that encourage reporting misconduct internally, also called internal whistle-blowing.

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TABLE 7-3 Questions to Ask before Engaging in External Whistle-Blowing

1. Have I exhausted internal anonymous reporting opportunities within the organization?
2. Have I examined company policies and codes that outline acceptable behavior and violations of standards?
3. Is this a personal issue that should be resolved through other means?
4. Can I manage the stress that may result from exposing potential wrongdoing in the organization?
5. Can I deal with the consequences of resolving an ethical or legal conflict within the organization?

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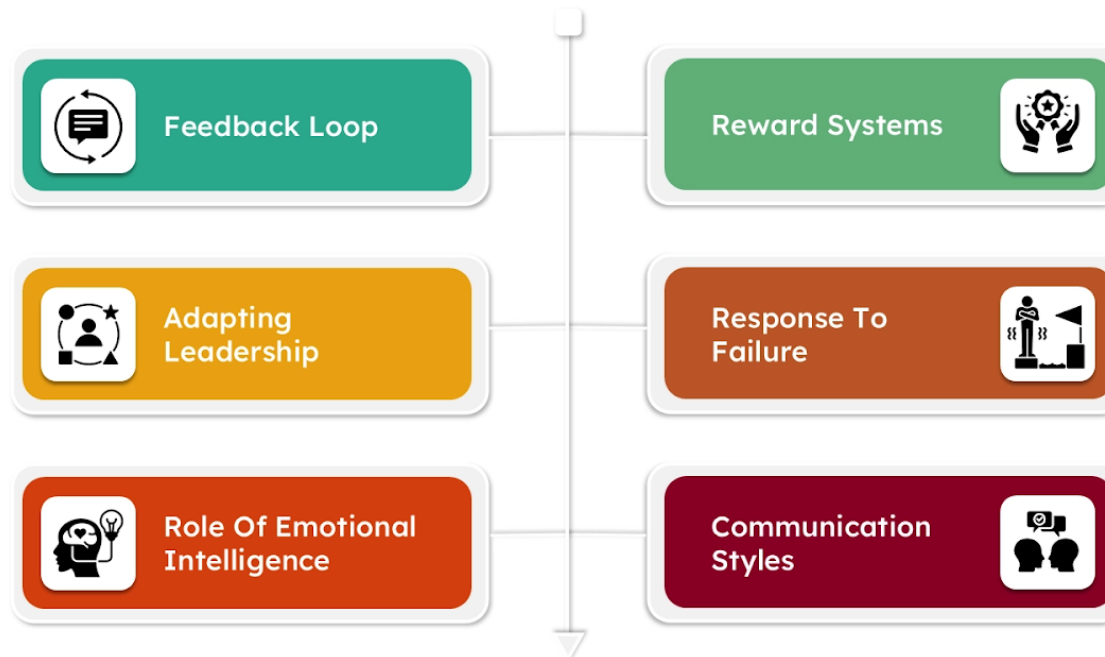
TABLE 7-4 **Receiver of Reports of Misconduct**

Reporting Location
Immediate supervisor
Top management
Human resource management
Hotline/Help Line
Ethics officer
Outside the company (not governmental or regulatory authority)
Legal

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LEADERS INFLUENCE CORPORATE CULTURE

Impact Of Leadership Practices On Organisational Culture



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Leaders Influence Corporate Culture

- **Power refers to the influence leaders** and managers have over the behavior and decisions of subordinates.
- Organizational leaders can shape and influence corporate culture, resulting in ethical or unethical leadership.
- Leaders need to be effective and ethical.
- An effective leader is one who does well for the stakeholders of the corporation.
- Effective leaders get followers to their common goals or objectives in the most effective and efficient way.

There are five power bases from which one person may influence another:

- **(1)** reward power, **(2)** coercive power, **(3)** legitimate power, **(4)** expert power, and **(5)** referent power.
- These five bases of power can be used to motivate individuals either ethically or unethically.

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Leaders Influence Corporate Culture

- **A leader's ability to motivate subordinates** plays a key role in maintaining an ethical organization.
- Motivation is a force within the individual that focuses his or her behavior toward achieving a goal
- **An organization's structure** is important to the study of business ethics because the various roles and job descriptions that comprise that structure can create opportunities for unethical behavior.
- The structure of organizations can be described in many ways. For simplicity's sake, we discuss two broad categories of organizational structures—centralized and decentralized.

ORGANIZATIONAL FACTORS: THE ROLE OF ETHICAL CULTURE AND RELATIONSHIPS

TABLE 7-5 Structural Comparison of Organizational Types

Characteristic	Centralized	Decentralized
Hierarchy of authority	Centralized	Decentralized
Flexibility	Low	High
Adaptability	Low	High
Problem recognition	Low	High
Implementation	High	Low
Dealing with changes	Poor environmental complexity	Good
Rules and procedures	Many and formal	Few and informal
Division of labor	Clear-cut	Ambiguous
Span of control	Many employees	Few employees
Use of managerial techniques	Extensive	Minimal
Coordination and control	Formal and impersonal	Informal and personal



Thank You