

US ARMY SERGEANTS MAJOR ACADEMY
Sergeants Major Course (SMC)
Developing Organizations and Leaders

Developing Ethical Organizations

Developing Ethical Organizations: Ethics as Organizational Culture

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INTRODUCTION

“Culture” has become a common way of thinking about and describing an organization’s internal world - a way of differentiating one organization’s “personality” from another. In this chapter, we apply this culture concept to organizational ethics. We will propose that organizations can and should proactively develop an ethical organizational culture and that organizations with “ethics problems” should take a culture change approach to solving them. Given recent ethical scandals in the corporate world, we also propose that individuals should evaluate the ethical culture of an organization before joining it. Doing so can avoid stressful conflicts between personal values and organizational values and help ensure a satisfying work experience. Ethics is an integral part of the organization’s overall culture. Therefore, designing an ethical organization means systematically analyzing all aspects of the organization’s ethical culture and aligning them so that they support ethical behavior and discourage unethical behavior. This kind of analysis and alignment requires a substantial and sustained effort over a long period of time and the full involvement of senior leaders who must proactively develop an ethical organizational culture.

ALIGN MULTIPLE SYSTEMS TO SUPPORT ETHICAL BEHAVIOR Organizations that are serious about ethics must proactively develop an ethical culture that will guide employee actions and decisions. Cultures are complex combinations of formal and informal organizational systems. To create an ethical culture, these systems must be aligned (work together) to support ethical behavior. In other words, the formal and informal systems must be sending the same message. For example, if the formal ethics code tells people that honesty is highly valued in the organization, and high-level managers routinely tell customers the truth about the company’s ability to meet their needs, employees receive a consistent message about the organization’s commitment to honesty. The systems are aligned. On the other hand, if the same organization regularly deceives customers in order to land a sale, the organization is out of alignment. The formal code says one thing while its actions say quite another. Deceit is what the organization is really about, despite the ethics code.

ETHICAL LEADERSHIP AND ETHICAL CULTURE Senior leadership represents an important component of an organization’s ethical culture, as integrity (or the lack of it) flows from the top down and employees take their cues from the messages sent by those in formal leadership roles. But most employees don’t know the senior executives of their organization personally. They only know what they can make sense of from afar. Senior executives must develop a “reputation” for ethical leadership by being visible on ethics issues. A recent study²⁰ found that such a reputation rests upon dual dimensions that work together: a moral person dimension and a moral leader dimension. (See Figure 1: Executive Ethical Leadership.) First, we will explain what each dimension represents and then we’ll combine these

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dimensions into a matrix that shows how leaders can develop a reputation for ethical leadership, unethical leadership, hypocritical leadership, or ethically neutral leadership.

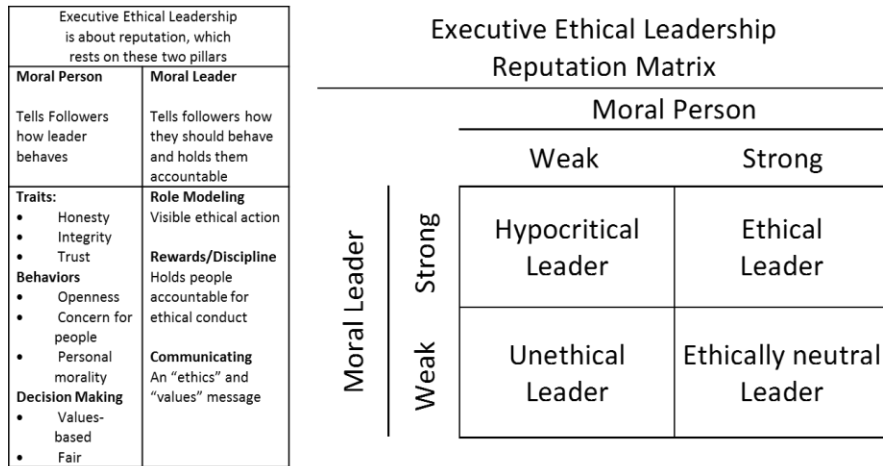


Figure 1
Executive Ethical Leadership

The moral person dimension represents the “ethical” part of the term ethical leadership and is the key to developing a reputation for ethical leadership among employees. As a “moral person,” the executive is seen first as demonstrating certain individual traits (integrity, honesty, and trustworthiness). For example, one executive described ethical leaders as “squeaky clean.” But probably more important are visible behaviors. These include doing the right thing, showing concern for people and treating them with dignity and respect, being open and listening, and living a personally moral life. To some extent, senior executives live in glass houses. They are often public figures and active in their communities. So, they need to be particularly careful about their private behavior. Rumors can begin quickly and taint an otherwise solid reputation. Finally, contributing to one’s perception as a moral person is making decisions in a particular way—decisions that are explicitly based upon values, fairness, concern for society, and other ethical decision rules.

But being a moral person, by itself, isn’t enough to be perceived as an ethical leader. Being a moral person tells employees how the leader is likely to behave, but it doesn’t tell them how the leader expects them to behave. Therefore, to complete the ethical leadership picture, executives must also act as “moral leaders”—they must focus on the “leadership” part of the term “ethical leadership” by making ethics and values an important part of their leadership message and by shaping the firm’s ethical culture. They do that by conveying the importance of ethical conduct in a variety of ways. The large majority of the messages employees receive in business are about bottom-line goals. Therefore, senior executives must make ethics a priority of their leadership if ethics is to get attention from employees. Moral leaders do this by visibly role-modeling ethical conduct, by communicating openly and regularly with employees about ethics and values, and by using the reward system to hold everyone accountable to the standards. This “moral person/moral leader” approach is similar to what executive headhunters Thomas Neff and James Citrin list as their number one strategy (of six) of corporate stars: “Live with Integrity, Lead by Example.” They say, “Integrity builds the trust in senior management that is critical for high-performing organizations.”²¹

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UNETHICAL LEADERSHIP Unfortunately, unethical leaders can influence the development of an unethical culture. In terms of our matrix, unethical leaders have reputations as weak moral persons and weak moral leaders. In interviews, senior executives cited Al Dunlap as a senior executive with a reputation for unethical leadership. John Byrne of Business Week wrote a book about Dunlap entitled *Mean Business* and published excerpts in the magazine. According to Byrne, Dunlap became famous for turning struggling companies around. But while at Sunbeam, he was also known for “emotional abuse” of employees—being “condescending, belligerent and disrespectful.” “At his worst, he became viciously profane, even violent. Executives said he would throw papers or furniture, bang his hands on his desk, and shout so ferociously that a manager’s hair would be blown back by the stream of air that rushed from Dunlap’s mouth.” Dunlap also demanded that employees make the numbers at all costs, and rewarded them handsomely for doing so. As a result, they felt pressure to use questionable accounting and sales techniques. Dunlap also lied to Wall Street, assuring them that the firm was making its projections and would continue to reach even higher. In the end, Dunlap couldn’t cover up the real state of affairs and Sunbeam’s board fired him in 1998. But he left the company crippled.²⁶ In 2002, Dunlap settled a civil suit filed by the SEC. He paid a \$500,000 fine and agreed to never again be an officer or director of a public company. Whether federal prosecutors will pursue him remains an open question. Investigators have learned that allegations of accounting fraud on Dunlap’s watch go back to the 1970s and follow him through a number of companies.

HYPOCRITICAL LEADERSHIP There may be nothing that makes us more cynical than a leader who talks incessantly about integrity and ethical values but then engages in unethical conduct, encourages others to do so either explicitly or implicitly, rewards only bottom-line results, and fails to discipline misconduct. This leader is strong on the communication aspect of moral management but clearly isn’t an ethical person—doesn’t “walk the talk.” It’s a “do as I say, not as I do” approach. Al Dunlap made no pretense about ethics. All that mattered was the bottom line and he didn’t pretend to be a nice guy. But hypocritical leadership is all about ethical pretense. The problem is that by putting the spotlight on integrity, the leader raises expectations and awareness of ethical issues. At the same time, employees realize that they can’t trust anything the leader says. That leads to cynicism, and employees are likely to disregard ethical standards themselves if they see the leader doing so.

ETHICALLY NEUTRAL LEADERSHIP Many top managers are neither strong ethical nor unethical leaders. They fall into what employees perceive to be an ethically “neutral” leadership zone. They simply don’t provide leadership in the crucial area of ethics, and employees aren’t sure what the leaders think about ethics, if anything. This may be because the leader doesn’t realize how important executive ethical leadership is to the organization’s ethical culture, or just doesn’t care that much. On the moral person dimension, the ethically neutral leader is not clearly unethical, but is perceived to be more self-centered than people-oriented. On the moral leader dimension, the ethically neutral leader is thought to focus intently on the bottom line without setting complementary ethical goals. There is little or no ethics message coming from the top. But it turns out that silence represents an important message. In the context of all the other messages being sent in a highly competitive business environment, employees are likely to interpret silence to mean that the top executive really doesn’t care how business goals are met (only that they are met), and they’ll act on that message.²⁸

Research has found that executive ethical leadership is critical to employees. In a recent study, unethical behavior was lower, and employees were more committed to their organization, more ethically aware, and more willing to report problems to management in firms that had an ethical culture characterized by top executives who represented high ethical standards, regularly showed that they cared about ethics, and were models of ethical behavior.³¹ But, interestingly, senior executives are often not aware of how important their ethical leadership is. Many believe that being an ethical person who makes

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ethical decisions should be enough. But, it isn't enough. Executives must lead on this issue (be moral leaders) if it is to register with employees. In a highly competitive environment of intense focus on the bottom line, employees need to know that the executive leaders in their organization care about ethics. An ethical leader makes it clear that strong bottom-line results are expected, but only if they can be delivered in a highly ethical manner.

AUTHORITY, RESPONSIBILITY, AND ETHICAL CULTURE With bureaucracy comes the idea of legitimate authority. Look at any organizational chart. It will tell you who supervises whom—who has authority over whom. These authority figures serve important bureaucratic roles. They direct work, delegate responsibility, conduct performance appraisals, and make decisions about promotions and raises.³⁵ But the idea of legitimate authority can present problems for the ethical culture. First, recall from Chapter 7 that people tend to obey authority figures no matter what they are ordered to do.³⁶ This natural tendency toward unquestioning obedience can be a real threat to the organization's attempt to build individual responsibility into its ethical culture. In attempting to control employee behavior, many firms expect loyalty and some demand unquestioning obedience to authority from their employees. You might think that's a good idea—that authority figures have more experience and should know what's right, and employees should follow their orders. But even the military expects soldiers to question unethical orders. Loyalty is generally a good thing, but you shouldn't be expected to be Loyal or obedient to an unethical boss or organization. Unquestioning obedience to authority means that employees are not expected to think for themselves, question bad orders, or to take personal responsibility for problems they observe.

Therefore, a culture that expects unquestioning obedience from employees can result in serious ethical problems. A recent study found that the more a firm demands unquestioning obedience to authority, the higher the unethical conduct among employees, the lower their tendency to seek advice about ethical issues, and the lower the likelihood that employees would report ethical violations or deliver “bad news” to management.³⁷

The structure of an organization can also fragment jobs and roles.³⁹ It isn't necessarily that individuals don't want to take responsibility. But jobs and roles get so divided up that they simply can't see the big picture.⁴⁰ We saw in Chapter 7 how military bureaucrats passed the buck for responsibility during an investigation of the My Lai massacre. They saw themselves only as cogs in a machine. No one felt responsible for the larger outcomes of their actions.

The ethical culture must incorporate a structure that emphasizes and supports individual responsibility and accountability at every level. Each person must be encouraged to take responsibility for his or her actions and to question authority figures when they suspect problems. And individuals must be held accountable for negative consequences when they occur. However, tracking responsibility is difficult and time consuming and is rarely done well. Many organizations don't do this kind of record keeping at all, perhaps preferring to keep responsibility ambiguous and keep a scapegoat a viable possibility.

Values and Mission Statements, Policies and Codes

Many organizations aim to guide employees' behavior through formal organizational value statements, mission statements, credos, policies, and formal codes of ethical conduct. Value and mission statements and credos are abstract, general statements of guiding beliefs. “Most companies have them, but it's important that the mission statement be closely aligned with other dimensions of the culture. According to James Collins, co-author of ‘Built to Last: Successful Habits of Visionary Companies’; “the words matter far less than how they are brought to life. The mistake most companies make is not setting up procedures to make sure the mission is carried out”.

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Reward Systems

The importance of reward systems was discussed in Chapter 7. To be effective, rewards must be linked to specific results and behaviors that are deliberately articulated and managed. This link is created through performance management. Effective performance management systems involve the entire process of articulating goals, aligning goals up, down, and across the organization, identifying performance metrics, and then providing a compensation structure that rewards individual, and frequently team, effort. Just as publicly traded companies are rewarded in the stock market for results, a well-designed performance management system rewards individuals for a variety of results, financial and non-financial. The importance of an effective performance management system is worth repeating here where we focus on the reward system as a key component of the ethical culture and, in particular, the essential role it plays in alignment or misalignment of cultural systems.

DESIGNING A PERFORMANCE MANAGEMENT PROCESS THAT SUPPORTS ETHICAL CONDUCT Since people “do what’s measured and rewarded,” the best way for an organization to design a comprehensive performance management system is to spend time identifying which factors drive business results. This type of corporate soul-searching generally results in a list of factors, only some of which are financial and many of which are related to operational decisions that drive future financial performance. Just as Fortune magazine considers reputation when designing its famed “lists,” many sophisticated companies understand that reputation, in many cases, drives financial results. However, many companies continue to design performance management programs that consider only financial results, ignoring the non-financial drivers that can actually serve as the underpinning of the numbers. These companies focus on “what” business results are delivered and they ignore “how” those results were achieved. That is probably the fastest way for an organization’s ethical culture to get out of alignment.

Here’s how performance management systems can be designed to get great results the right way. First, an organization needs to focus on the mechanics. For example, once an organization understands what is necessary to drive results, it needs to set goals to achieve those desired results and metrics to determine whether the goals are being met. Real success in this area comes when organizations effectively communicate those goals to every employee, helping employees identify how each person can create value for the organization and then rewarding employees fairly for their contribution toward achieving those goals.

Once the mechanics are in place, the next challenge is to marry the “what” with the “how,” and that’s where an organization’s articulated values come in. Those values—probably concerning the importance of people and integrity and diversity and customer service, and so forth— need to be translated into metrics for which every employee is held accountable. When such a process is in place, high fliers who exceed all of their numbers can be held accountable for “how” they met those numbers because it is built right into their performance expectations and rewards process.

REWARDING AND PUNISHING BEHAVIOR To understand the ethical conduct of individuals in the organization, we need to look more specifically at the behaviors that are rewarded and punished and at how this system aligns with (or doesn’t align with) the rest of the ethical culture. When managers are asked about ethics in their organization, reward systems are frequently cited as a significant problem. They report that concern about the bottom line often conflicts with and overwhelms concern about ethics. Employees are rewarded for reaching a particular goal or for selling a certain amount of product, with little attention to how the goal is achieved. Because people tend to do those things that are rewarded,

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management must ensure that performance goals are realistic and can be achieved without resorting to unethical behavior.

Misalignment of the reward system with other aspects of the ethical culture is quite common. We frequently hear this from managers who work in an organization with a code of ethical conduct that isn't enforced. Think about what happens when these cultural systems conflict. For example, imagine an organization where everyone knows that the top sales representative's sales depend on unethical practices. Not only does the unethical conduct go undisciplined, but the sales representative receives large bonuses, expensive vacations, and recognition at annual sales meetings. Members of the sales force recognize that the reward system carries the "real" message, and so the code becomes meaningless, or worse yet, an example of top management's hypocrisy.

Recall from Chapter 7 that the reward system includes discipline as well as rewards. For an ethical culture to be in alignment, unethical behavior must be disciplined and disciplined equally across organizational levels. That means that the star executive who always makes the numbers must be punished for knowingly breaking the rules just as a lower-level employee would be disciplined. In fact, at that level, the discipline should probably be harsher because the higher in the organization one goes, the more responsibility one holds.

THE REWARD SYSTEM AND WHISTLE-BLOWERS The organization's treatment of whistle-blowers is a relevant reward system concern⁵³ and a frequent source of misalignment. In today's organizations, fewer employees are directly supervised. Therefore, organizations must rely more on their employees to report misconduct. However, as we all know, powerful norms exist against blowing the whistle. The words we use to describe this behavior, "tattling," "squealing," "snitching," "informing," and "ratting," all have negative connotations. In fact, there isn't a nice or even a neutral word to describe it.

As suggested in Chapter 3, whistle-blowers frequently suffer retaliation, particularly when they report managerial or organizational misconduct.⁵⁴ They're punished rather than rewarded for doing what they think is right. If an organization claims that it's attempting to develop an ethical culture, retaliation against a whistle-blower is a powerful example of misalignment. Again, the workers view this "punishment" of the whistle-blower as an example of the organization's real ethical beliefs. The ethical organization, however, should view the whistle-blower as an important cog in its control system and must find ways to make whistle-blowing a safe activity. Some organizations even reward whistle-blowing.

But most people don't expect or want a reward for doing the right thing. They just don't want to be punished for it. In an attempt to protect whistle-blowers, many organizations have installed hotlines and ombudspersons. Whistle-blowers can call these hotlines and speak confidentially and without fear of retaliation. Examples of how these work are included in Chapter 10. In addition, society has changed the laws, providing more protection to whistle-blowers under the Sarbanes-Oxley Act.

Thus, organizational reward systems are important in themselves because they provide guidance about expected behavior, but they're particularly important in the sense that people look to them to reflect the "real" message about what is valued in the organization. Is there consistency between what the organization says (e.g., codes) and what it does (rewards and punishments)? Reward systems frequently represent the source of "cultural misalignment" that can lead to cynicism about organizational ethics.

Orientation and Training Programs

Socialization is often begun through formal orientation programs and reinforced through ongoing training. The organization's values and guiding principles can be communicated in orientation programs.

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More specific guidance in ethical rules and decision making can be provided in subsequent training programs. Ethics training must be consistent with the ethical culture—how we really do things around here—because training programs out of alignment are thought of, at best, as a pleasant day away from the office. At its worst, the ethics training will be taken as a joke, when managers attempt to reconcile what they’re hearing with their experience in the real organization.

Decision-Making Processes

Ethical decisions are influenced by the organization’s formal decision-making processes. For example, managers may ignore the ethical dimension of decisions unless leaders state that ethical concerns must be a formal part of all decision making. This emphasis on ethics can also be reinforced by regularly addressing ethical concerns in meetings and by making them an expected part of managers’ reports regarding new products or new business ventures. Environmental impact is now an expected and routine part of corporate decision making in many firms. Some organizations are also creating special high-level “ethics” committees charged with reviewing major organizational level decisions from an ethical perspective.⁶⁰ Others have advocated the implementation of moral quality circles, groups set up to assess the morality of business decisions.⁶¹

INFORMAL CULTURAL SYSTEMS

In addition to the formal systems described previously, organizational culture is kept alive informally and symbolically through informal norms, heroes, rituals, myths, and stories. Information about these is carried through informal communication systems such as the grapevine. In this way, people come to know what behaviors are “really” rewarded, how decisions are “really” made, and what organizational leaders “really” care about and expect. If messages from the formal and informal cultural systems differ, the ethical culture is out of alignment. And people are more likely to believe the messages carried by the informal system—the informal norms, for example. Recent research has found that employees’ perceptions of informal cultural systems influence their ethics-related behavior more than the formal systems do.⁶⁴ Therefore, management of these informal systems is extremely important.

Norms: “The Way We Do Things around Here”

Norms are standards of behavior that are accepted as appropriate by members of a group. They exert a powerful influence on individual behavior in organizations, and they can serve to support ethical or unethical conduct. For example, imagine an individual entering a computer software sales job who is told immediately by peers in the sales force that customers should always be dealt with honestly because long term customer relations are so important to the firm. Here, the norm of honesty with customers supports ethical conduct. On the other hand, consider the individual who begins a new job and is told by his or her colleagues that making the sale is all that counts even if you have to lie to the customer about the capabilities of the software or delivery dates to make it. This norm supports unethical conduct. Either kind of norm (ethical or unethical) can become “the way we do things around here” in the organization. Formal procedures are often inconsistent with the informal norms that develop. For example, the salesperson described previously may have attended a mandatory ethics training Session that taught rules of honesty in customer relationships. But if the message being sent on the job is to make the sale no matter what, the formal rule is overridden.

Similarly, at a fast-food restaurant, new employees may be told about a rule against eating food without paying for it. However, once on the job, they may see coworkers eating while the supervisor looks the other way. These coworkers may rationalize their behavior because of their low pay or poor

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working conditions, or because the supervisor doesn't seem to care that he eats food him or herself. Encouraged to join in, the new employee is likely to do so, having learned the "real" rules. Thus, despite formal rules, regulations, codes, and credos, informal norms are frequently the most influential behavior guides. And when informal norms are inconsistent with formal rules and codes, the organization is clearly out of alignment.

Heroes and Role Models

Heroes personify the organization's values.⁶⁵ They're symbolic figures setting standards of performance by modeling certain behaviors. These heroes can be the organization's formal leaders. For example, Bill Gates can be considered the hero of Microsoft and Herb Kelleher the hero of Southwest Airlines. Heroes can be founders who are no longer even present in the organization. As we noted earlier, Thomas Jefferson is still very much alive at the University of Virginia, and Walt Disney haunts the corridors at The Walt Disney Company. Stories about the values of these heroes continue to influence decision making. Thus, a hero who is a champion for integrity and who stands up for what is right may influence the behavior of many in the organization.

Much socialization about ethics is informally conducted by role models and mentors who may be superiors or just more experienced co-workers. Mentoring is usually an informal process whereby a more senior person takes a junior person under wing, providing information, career strategies, and so on. Individuals who are passing through organizational "boundaries," such as new hires, or who are transferring from one part of the organization to another are most vulnerable to these socialization influences.⁶⁷ The mentor or role model may emphasize the importance of integrity and resistance to pressure to behave unethically, or the role model may indoctrinate the individual into accepted unethical practices, making it difficult for the individual not to go along.⁶⁸ The new accounting graduate who was told by his superior in a public accounting firm, "You're too honest to be an auditor," received a powerful message about ethics (or the lack thereof) in that organization. When looking for evidence of misalignment; ask whether the organization's heroes represent the values formally espoused by the organization or not.

Savvy executives understand the role that heroes play in forming or changing a culture. One CEO of a financial services firm was very serious about identifying and rewarding people who lived his organization's values. He challenged his executives to bring him stories of employees who were doing the right things in the right way, who were models of the culture. He collected these stories and sent personal, handwritten thank-you notes to those model employees. While a phone call might have sufficed, employees were so thrilled with his written recognition and praise that they displayed his notes in their offices. Those framed notes sent a rather loud message to other employees about what kind of behavior was valued at high levels. Of course, they also helped spread word of the "heroes" and their deeds.

Rituals

Rituals tell people symbolically what the organization wants them to do and how it expects them to do it.⁶⁹ Rituals are a way of affirming and communicating culture in a very tangible way.⁷⁰ Other companies have awards ceremonies that convey the values of the organization. What values are celebrated at these ceremonies? Is it success with integrity, or are only those who make their numbers celebrated? Ask whether the rituals are consistent with the formal rules and reward systems to help determine if the culture is in alignment.

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Myths and Stories

Another extremely important way organizational culture is communicated and kept alive is through the informal communication network. People tell stories to give meaning to their world and life.⁷² Organizational myths and stories explain and give meaning to the organizational culture. They're anecdotes about a sequence of events drawn from the organization's history. The story's characters are employees, perhaps company heroes, and the moral of the story expresses the organization's values.⁷³ At IBM, a story that has been told and retold describes how a low-level employee denied Tom Watson, then IBM president, entry into a restricted area of the company because Watson was not wearing his IBM identification badge. Watson praised the employee, suggesting the importance of upholding company rules and applying them to everyone.

Language

Cultures develop and use language to communicate values to employees. The old joke that business ethics is an oxymoron suggests that many consider the language of ethics to be out of place in the business context. A number of the corporate ethics officers we interviewed suggested that the word "ethics" is "charged" and "emotional" for employees who often react negatively to any hint that their ethics might not be okay. When possible, they use other words to describe what they're trying to do. For example, employees seem to be more comfortable talking about integrity or shared values than ethics. Research suggests that managers are reluctant to describe their actions in moral terms even when they are acting for moral reasons, a phenomenon referred to as moral muteness. This reluctance can be attributed to managers' avoidance of the interpersonal confrontation that may take place if they question an organizational practice or decision, to the value placed on "efficient" decision making such that moral talk can be thought of as a distraction, and to the desire to appear powerful and effective. Moral talk can appear idealistic and inconsistent with the expectation that managers can solve their own problems.⁷⁶

Getting people to talk about ethics has also been likened to sex education. Although parents agree that sex education is a good thing, they find it difficult to broach the subject with their children. Similarly, managers may find it difficult to begin a conversation about ethics with other managers or with their subordinates. If these topics are typically not discussed, the manager who brings it up may feel like a goody-goody or a spoilsport.⁷⁷ But managers who become comfortable talking about ethics will be role modeling important behaviors for their subordinates.

Top managers can also make ethics an acceptable topic of conversation by sending a message that it's not only OK but expected to talk about one's ethical concerns. They can do this by leading discussions about ethics, discussing the ethics code and its application in a video that is shown to employees, and otherwise openly discussing ethical problems with managers and employees. Senior managers can also build "moral talk" into the fabric of the organization by requiring routine discussion of moral issues and inclusion of ethical issues in business proposals.⁷⁸

It's difficult to imagine discussing questions of organizational ethics without an acceptable vocabulary to support the discussion. Both educators and employers have a role to play in providing students and workers with the language that can be used to discuss and analyze organizational problems from an ethical perspective. It could be as simple as using words such as "right," "wrong," "honesty," "integrity," "values," and "character." How often does your organization ask whether the decision is the right one, in a moral as well as a business sense? Is this the "proper" thing to do for customers, suppliers,

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and the community? How often is a job applicant evaluated for integrity, values, and character, in addition to performance?

The use of ethical language may be related to decision-making behavior. In one study, individuals who discussed their decision-making process using the language of ethics were more likely to be the ones who made an ethical decision.⁷⁹ These people talked about ethics, morals, honesty, integrity, values, and good character. Those who had made the unethical decision were more likely to recount the decision in the more traditional business language of costs and benefits. This research suggests a link between language and ethical decision making. The implication for organizations is that their employees may need to be taught the language of ethics and its appropriateness for business decision making.

Special organizational language can also be used to avoid the moral implications of actions. For example, in Nazi Germany, the code names for killing and genocide were “final solution,” “evaluation,” and “special treatment.” This use of euphemisms allowed people to avoid confronting the true meaning of their behavior.⁸⁰ Similarly, in recent years companies have created euphemisms to avoid the pain of decisions to lay off employees. “Downsizing,” “rightsizing,” “restructuring,” and “targeted outplacement” are just a few of the terms we’ve encountered. It may be easier to impose a “targeted outplacement” than a layoff, but are the moral considerations as obvious with “targeted outplacement” as they are with layoffs? Using moral language increases individuals’ moral awareness.

DEVELOPING AND CHANGING THE ETHICAL CULTURE

We can conclude from this cultural analysis that ethics at work is greatly influenced by the organization’s culture. Both formal and informal organizational systems and processes channel and reinforce certain kinds of behavior. Each of the systems on its own can support either ethical or unethical conduct. In addition, these multiple systems can work together or at cross purposes to support ethical or unethical conduct in the organization, leading to an organization that is in alignment or misalignment. Imagine an organization with an ethics code that forbids employees from accepting gifts of any kind, but a senior executive is known to have accepted box seats at the ball game from a client. This “we say one thing, but do another” approach leads to widespread cynicism. The code loses all credibility as workers pay more attention to what’s done than to what’s said. On the other hand, the organization that disciplines that executive visibly reinforces the code, supporting its ethical stance with all workers.

Developing or changing organizational ethics, then, involves simultaneously developing or changing multiple aspects of the organization’s ethical culture, if the effort is to be successful, this ethical culture development or change should involve the alignment of all relevant formal and informal organizational systems. Obviously, this requires a major commitment from the most senior levels in the organization. Culture change attempted at lower levels is not likely to be effective unless it is fully supported and modeled by senior management.

Changing organizational culture is more difficult than developing it. In a new organization, workers are quite open to learning and accepting the culture of their new organizational home. However anthropologists and organizational scientists agree that changing culture is an extremely difficult process.⁸¹ This view is consistent with an idea basic to all organizational change and development efforts—that changing individual and group behavior is both difficult and time consuming. The human tendency to want to conserve the existing culture is referred to as “cultural persistence” or inertia. Culture has an addictive quality, perhaps because culture members are aware that culture components cannot be altered without affecting other, cherished values and institutions.⁸² Also, an unethical culture tends to feed on

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itself. Why would successful (but unethical) managers want to change? They wouldn't. They would tend to hire people like themselves and perpetuate the culture that exists.

Most often, pressure for culture change comes from outside—from stockholders, the government, regulators, and other outside stakeholders. The public's general mistrust of business executives⁸³ and the threat of increased government regulation may encourage leaders to look more closely at their ethical cultures. In addition, organizations whose members have been "caught" engaging in unethical behavior, or those faced with costly lawsuits are prime candidates for such ethical culture change attempts. Finally, the government's sentencing guidelines for corporate crime turned the attention of many organizations to an evaluation of their ethical cultures during the 1990s. The same is likely true now as companies and their boards evaluate the impact of new legislation such as the Sarbanes-Oxley Act.

A CULTURAL APPROACH TO CHANGING ORGANIZATIONAL ETHICS

Any attempt to develop or change organizational ethics can benefit from an organizational change approach that includes a system-wide, long-term view. In addition, it should be based on the assumption that human beings are essentially good and capable of development and change.

A Cultural Systems View

The cultural approach relies on the idea that to be successful, any attempt to develop or change the organization's ethics must take the entire cultural system into account.⁸⁵ The change effort must target multiple formal and informal organizational subsystems. All of these must work together to create clear, consistent messages about what is and is not appropriate behavior in the organization. If subsystems conflict, confusion and mixed messages will result. Thus, the entire range of formal and informal subsystems must be analyzed and targeted for development and change.

This complex, multisystem approach to managing organizational ethics argues against any short-term, quick-fix solutions that target only one system. The idea that an organization could solve its ethics problem simply by establishing a code of ethics or by hiring a consultant to deliver a one-hour ethics training program becomes ludicrous when the complexity of the ethics culture is understood. The management of ethical conduct must be complex because it's influenced by multiple systems, each of them complex in itself. Thus, the complexity of the solution must match the complexity of the problem. A solution that isn't sufficiently complex will miss important information, make incomplete diagnoses, and produce overly simple and short-sighted solutions. The organization that creates a code of ethics in response to external pressure and files it away without making changes in other systems such as the reward system and decision-making processes is more likely making a negative statement about organizational ethics rather than a positive one. The informal message is that management is hypocritical and that the code of ethics serves no useful purpose beyond the creation of a false facade. The same can be said of lofty values statements. For example, many of these statements talk about valuing diversity. But what happens when people look around the organization and see few minority managers? Executives need to understand that when they put a values statement in writing, employees expect a commitment to follow through. The bottom line about systems thinking is to understand that, if an organization decides to get into the "ethics business" with a values statement, code, or training program, employees expect follow-through in other parts of the organization. A failure to follow through will be interpreted as hypocrisy.

Diagnosis: The Ethical Culture Audit

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Formal attempts to develop or change organizational ethics should begin with diagnosis. Diagnosing culture calls for time-consuming techniques, such as auditing the content of decision making, coding the content of organizational stories and anecdotes, and holding open-ended interviews with employees at all levels.⁸⁸ It also requires systematic analysis of formal organizational systems, such as the structure and criteria for rewards and promotion.

The framework presented in this chapter can provide guidance for an audit of the organization's ethical culture.⁸⁹ The audit should include probes into the formal and informal organizational systems that are maintaining the ethics culture in its current state. First, formal organizational systems can be analyzed in a number of ways. Through surveys, interviews, observation at meetings, orientation and training sessions, and analysis of organizational documents, perceptions of how formal organizational systems either encourage or discourage ethical behavior can be identified. Samples of the kinds of questions that can be asked are listed in Table 9.1.

Auditing informal systems is equally important. The culture can be analyzed to identify the organization's heroes as well as the behaviors that are reinforced through stories, rituals, and language. This can be accomplished through open-ended interviews, observation of organizational rituals, and analysis of the organization's stories. Some questions that might be asked in an audit of the informal system are offered in Table 9.2. The questions in Tables 9.1 and 9.2 are designed to suggest the general direction of an ethical culture audit. Specific questions that arise out of the particular system being analyzed must be developed to tap that system's unique problems and needs. Canned approaches to discovering culture that assume they can identify the relevant dimensions in advance are bound to fail.⁹⁰ In addition, the multisystem nature of organizational culture suggests that responses must be compared within and across systems to answer the key question of whether formal and informal systems are aligned within themselves and with each other.

Table 9.1 Selected Questions for Auditing the Formal System

1. How are organizational leaders perceived in terms of their integrity? Is ethics part of their "leadership" agenda?
 2. How are ethics-related behaviors modeled by organizational leaders?
 3. Are workers at all levels encouraged to take responsibility for the consequences of their behavior? To question authority when they are asked to do something that they consider to be wrong? How?
 4. Are whistle-blowers encouraged and are formal channels available for them to make their concerns known confidentially?
 5. Is misconduct disciplined swiftly and justly in the organization, no matter what the organizational level?
 6. Are people of integrity promoted? Are means as well as ends important?
 7. Is integrity emphasized to recruits and new employees?
 8. Are managers oriented to the values of the organization in orientation programs? Are they trained in ethical decision making?
 9. Are ethical considerations a routine part of planning and policy meetings? Is the language of ethics taught and used?
-

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Table 9.2 Selected Questions for Auditing the Informal System

1. Identify informal organizational norms. Are they consistent with formal rules and policies?
 2. Identify the organization's heroes. What values do they represent? Given an ambiguous ethical dilemma, what decision would they make and why?
 3. What are some important organizational rituals? How do they encourage or discourage ethical behavior? Who gets the awards, people of integrity who are successful or individuals who use unethical methods to attain success?
 4. What ethical messages are sent to new entrants into the organization—must they obey authority at all costs, or is questioning authority acceptable or even desirable?
 5. Does analysis of organizational stories and myths reveal individuals who stand up for what's right despite pressure, or is conformity the valued characteristic? Do people get fired or promoted in these stories?
 6. Does acceptable language exist for discussing ethical concerns? Is this language routinely incorporated and encouraged in business decision making?
 7. What informal socialization processes exist and what norms for ethical/unethical behavior do they promote? Are these different for different organizational subgroups?
-

As you may have determined by now, a full-fledged ethical culture audit is a complex process that the average manager is probably not prepared to conduct. Many large organizations will have human resources staff with the required expertise, and conducting such an audit within the firm can send a powerful message that the firm cares about ethics (assuming that the audit is followed up with action). But, other organizations that do not have the expertise in-house will need assistance with these diagnoses and intervention efforts. And in some firms, employees may be more willing to discuss sensitive ethical issues with a trusted outsider.

Ethical Culture Change Intervention

Once the audit is complete, the data should be discussed with employees who can then be enlisted in the development of a culture change intervention plan. The plan will be guided by the diagnosis and the cultural, multisystem framework shown in Figure 9.2. Complementary changes in both the formal and informal organizational systems should be a part of any recommended change effort.

Though difficult, changing formal systems is a more straightforward process than changing informal systems. Gaps and problems identified in the diagnosis can be addressed in a number of ways. Structure can be altered to encourage individuals to take responsibility for their behavior and to discourage unquestioning deference to authority. Codes of ethics can be designed in a participative manner, distributed, and enforced. Reward systems can be designed to punish unethical behavior. Performance management systems can be designed with an emphasis not only on “what” people do but also on “how” they do it. Whistle-blowers can be encouraged and provided formal communication channels and confidentiality.⁹¹ Orientation programs can be designed to incorporate the organization's values, and training programs can be set up to prepare individuals to handle the ethical dilemmas they are most likely to face in their work. Integrity can be emphasized in selection and promotion decisions. Decision-making processes can incorporate attention to ethical issues by devoting time at meetings and space in reports.

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It's more difficult to change the informal systems, particularly those that have been found to maintain unethical behavior in the organization. However, these changes must be undertaken if the total change effort is to be effective. These changes require attention to the "art" rather than the science of management and are consistent with ideas about the importance of "symbolic management." With symbolic management, organizational leaders and managers are encouraged to create rituals, symbols, and stories that will influence those they manage.⁹²

ETHICAL CULTURE CHANGE EVALUATION As with any organizational change and development effort, results should be evaluated over an extended period of time. Evaluation, like diagnosis and intervention, should be guided by the multisystem framework. Surveys and interviews can be repeated regularly to determine if norms have changed and to pinpoint potential problem areas. Documents can be analyzed to determine if ethical issues are being consistently considered. Other outcomes, such as number of lawsuits or reports of unethical behavior, can also be tracked. However, interpretation may need to go beyond simply the numbers. Increased reporting to a hotline, for example, may only mean that ethical sensitivity has been raised and can be viewed as a positive outcome rather than a negative one. This is probably the part of culture building that is most neglected. Most organizations are unwilling to make the investment in evaluation, and therefore they really can't calculate the effectiveness of their efforts.

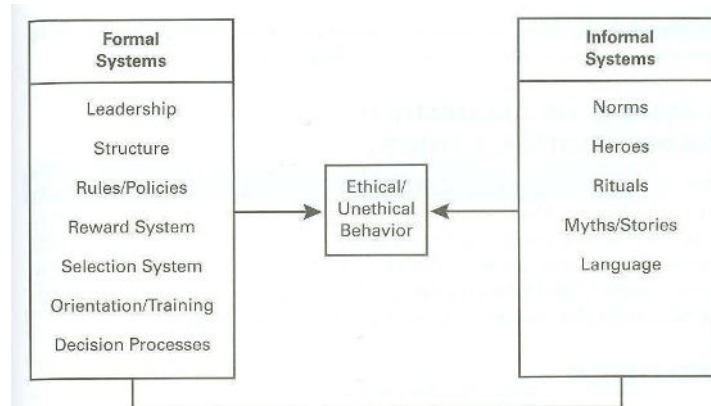


FIGURE 9.2 Developing and Changing Organizational Ethics— A Multisystem Cultural Framework

THE ETHICS OF MANAGING ORGANIZATIONAL ETHICS

An effort aimed at changing organizational ethics requires us to face a particularly knotty ethical dilemma: Whose values or ethics are to prevail? We believe that a change effort that involves employees is not manipulative or coercive and is most consistent with a concern for the ethics of the change effort itself. Employees should participate in the problem diagnosis and planning process. They should be aware of what's happening and should take part in identifying problems and recommending solutions.

CONCLUSION

This chapter has proposed a cultural framework for thinking about ethical and unethical behavior in the organizational context. Although individual character traits may predispose a person to ethical or unethical behavior, the cultural context in the organization also has a powerful influence on the behavior of most employees. An organization that wishes to develop or change its ethical culture must attend to the complex interplay of formal and informal systems that can support either ethical or unethical behavior.

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Quick-fix solutions are not likely to succeed. A broad, multisystem approach to developing and changing organizational ethics was outlined to guide organizations in diagnosing and, if necessary, changing their ethical culture.

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