10

Building an Ethical Organization

Making Ethics Matter

As we've seen throughout this text, fallen organizations pay a high price for their moral shortcomings in the form of damaged reputations; declining revenues, earnings, donations, and stock prices; downsizing and bankruptcy; increased regulation; and civil lawsuits and criminal charges. Unfortunately, managers and employees looking to integrate moral values into their work structures and processes often settle for superficial measures that have little influence on day-to-day operations. They focus on complying with legal requirements through official policies; ethical issues are rarely discussed, and decisions are typically made without reference to core values or moral standards. In other words, their ethical efforts are easily disconnected or "decoupled" from the most important organizational activities.[1]

The poor track record of contemporary organizations is proof that the decoupled approach to ethics doesn't work. Our task, then, is to make sure that ethics matter, (1) by ensuring that members recognize the moral dimension of every aspect of organizational life and (2) by encouraging improvement in collective ethical performance. Investigators use a variety of terms to describe such an ethics-based approach, including *integrated, integrity focused, purpose driven,* and *values centered.*[2] However, *transformational* is a more inclusive descriptor. This broader label incorporates integration, integrity, purpose, and values. To transform something means to alter its very nature or essence for the better, producing fundamental, long-lasting, positive change.[3] When applied to ethics, transformation goes beyond lip service to moral values or grudging compliance with legal requirements. Transformation places ethics at the center of the workplace, significantly altering attitudes, thinking, communication, behavior, culture, and systems. Key values drive individual decisions, interpersonal relationships, group interaction, and organizational goals.

Ethics in Action 10.1 contrasts the qualities of ethically decoupled and ethically transformed organizations. The objective of this chapter is to help you move your organization from the disconnected column to the transformed column or to help it maintain its transformed status. To reach this goal, you will need to understand the components of ethical culture and engage in successful cultural change efforts.

ETHICS IN ACTION 10.1 CHARACTERISTICS OF ETHICALLY DECOUPLED AND ETHICALLY TRANSFORMED ORGANIZATIONS

Ethically Decoupled Organizations	Ethically Transformed Organizations
See ethics as a means to an end (profit, better public image)	See ethics as an end in itself
Comply with legal requirements	Exceed legal requirements
Exhibit organizational behavior inconsistent with stated values	Take actions that reflect collective values; the transformed organization "walks its talk"
Are insensitive to potential moral issues	Are highly sensitive to moral dilemmas
Emphasize rules and penalties	Emphasize adherence to shared values
Have a low awareness of ethical duties	Have a high awareness of individual and collective ethical responsibilities
Engage in dysfunctional conflict	Engage in functional conflict
Tolerate misbehavior	Swiftly punish misbehavior
Rarely discuss ethics; rarely use moral vocabulary	Routinely discuss ethics using moral vocabulary

Ethically Decoupled Organizations	Ethically Transformed Organizations
Omit ethics from daily decisions and operations	Make ethics part of every decision and operation
Are driven by practical or pragmatic considerations (the bottom line)	Are driven by mission and values
React to destructive behaviors	Prevent destructive behaviors
Have ethically inconsistent reward structures	Have reward systems that promote moral behavior
Show a high concern for self	Show a high concern for others
Sacrifice individual rights for organizational good	Honor and protect individual rights
Engage in self-centered communication (monologue)	Engage in other-centered communication (dialogue)
Have low to moderate trust and commitment levels	Have high trust and commitment levels
Have teams that routinely fall victim to unethical group processes	Have teams that are rarely victimized by unethical group processes
Show high concern for the organization	Show high concern for stakeholders, society, and the global environment
Hold and build power bases	Give power away
Exhibit low-level moral reasoning	Base reasoning on universal ethical principles
Prevent members from making moral choices	Equip members to make moral choices
Respond to changes in the ethical environment	Anticipate changes in the ethical environment
Invest little in building a positive ethical climate	Invest significantly in creating and maintaining an ethical workplace (i.e., training, socialization, leader involvement)
Are at significant risk of ethical misbehavior and scandal	Are at low risk of ethical misbehavior and scandal

Components of Ethical Culture

Scholars from a variety of fields borrow the concept of culture from the field of anthropology to describe how organizations create shared meanings. As members meet and interact, they develop common beliefs, values, and assumptions, which are expressed

through architecture, ceremonies, rituals, dress, and other visible artifacts. Culture binds the organization together and, at the same time, greatly influences the behavior of individuals. What members wear and drive to work, the way they carry out their tasks and organize their time, and with whom they socialize at lunch are all products of shared culture. Ethicists are particularly interested in how cultural elements, both formal and informal, promote or discourage moral action. Formal cultural components include core values, mission statements, codes of ethics, structure, boards of directors, reward and evaluation systems, reporting and communication systems, and ethics officers. Informal components include language, norms, rituals, and stories.[4] In this section, I'll describe each of these elements and its relationship to ethical behavior. I will also outline ways you can use each component to contribute to the formation of an ethical environment.

Formal Elements

1. Core Values

Core values serve as enduring, guiding principles. Most organizations have between three and five such values, which are central to their collective identities.[5] Leaders at the Sealed Air Corporation (the makers of bubble wrap) consider their "bedrock values" to be personal accountability, respect for the individual, truth, and fair dealing. They take these values seriously. Concern for truth and fair dealing, for example, prevents company salespeople from slamming the competition. Independent energy producer AES incorporated the following values in the prospectus for its initial public offering: (1) integrity (wholeness, honoring commitments, adhering to the truth, consistency); (2) fairness to all stakeholders and just rewards; (3) fun (creating an enjoyable work atmosphere); and (4) social responsibility (doing a good job of fulfilling the company's purpose and doing something extra for society).[6]

Organizations run into trouble when they either fail to identify and communicate their core values or fail to live up to them. Some groups have never taken the time and effort to isolate those principles that set them apart; others have clearly defined values but don't put enough effort into publicizing them. To shape behavior, values must be continually reinforced through training, public meetings, annual reports, corporate videos, brochures, and other means. In addition, leaders must "walk the talk," living out the values through their performance.

Implementation Guidelines

There is no universal set of correct organizational core values. Instead, the key is to determine what members find intrinsically valuable in your work group, regardless of what outsiders think. Ask individuals to identify their own core values. Then bring members from around the organization together to share their personal values and to consider such questions as these: "If we were penalized for holding this core value, would we still hold on to it?" "Would we want to keep this value no matter how the world around us changes in the next 10 years?" "What are the very best attributes of

our organization?"[7] Once they have been selected, incorporate these values into decision-making processes and evaluation systems; continually communicate them. Hold your leaders as well as followers to these standards.

2. Mission (Purpose) Statement

A mission statement identifies an organization's reason for being, which reflects the ideals of its members. This statement combines with core values to form what management experts James Collins and Jerry Porras refer to as *core ideology*.[8] Core ideology is the central identity or character of an organization. Collins and Porras found that the character of the outstanding companies they studied remained constant, even as those firms continued to learn and adapt. Some examples of purpose statements from the United States, Canada, Great Britain, and Australia are found in Ethics in Action 10.2.

ETHICS IN ACTION 10.2 SAMPLE MISSION STATEMENTS

Provide children facing adversity with strong and enduring, professionally supported one-to-one relationships than change their lives for the better, forever. (Big Brothers/Big Sisters)

To solve unsolved problems innovatively. (3M)

Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, communities and hope. (Habitat for Humanity International)

To be Australia's finest financial services organization through excelling in customer service. (Commonwealth Bank)

To organize the world's information and make it universally accessible and useful. (Google)

To nourish and delight everyone we serve. (Darden Restaurants)

To develop people to work together to create value for the Company's shareholders by doing it right with fun and integrity. (Canadian Natural Resources)

To bring inspiration and innovation to every athlete in the world. (Nike)

To improve patients' lives by delivering innovative products and services that drive quality and efficiency in pharmaceutical care. (AmerisourceBergen)

To champion every client's goals with passion and integrity. (Charles Schwab)

To provide reliable supplies of energy across the continent, safely and responsibility. (TransCanada)

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Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit. (Southwest Airlines)

To create a world class diversified property group. (Stockland—Australia)

To provide products, services and solutions of the highest quality and deliver more value to our customers that earns their respect and loyalty. (Hewlett-Packard)

To create value for customers to earn their lifetime loyalty. (Tesco-Great Britain)

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. (Internal Revenue Service)

We will deliver an ever-improving quality shopping experience for our customers with great products at fair prices. (J. Sainsbury—Great Britain)

To earn money for shareholders and increase the value of their investment. (Cooper Tire & Rubber)

To make Dreyer's Grand Ice Cream, Inc. the leading premium ice cream company in America. (Dreyer's Grand Ice Cream)

To be earth's most customer centric company. (Amazon)

We fulfill dreams through the experience of motorcycles . . . (Harley Davidson)

To unlock the potential of nature to improve the quality of life. (ADM)

Committed to gathering and disseminating the information people need to work, live and govern themselves in a free society. (Times Mirror)

To constantly improve what is essential to human progress by mastering science and technology. (Dow Chemical)

SOURCES: King, Case, and Premo (2011). Corporate websites.

Many mission statements fail to guide and inspire or promote moral conduct. "Maximize shareholder wealth" is a purpose that provides minimal guidance or inspiration to members. Not only does it fail to distinguish a company from its competitors, but few people get excited about increasing earnings per share. Pursuing this objective may promote such unethical activities as overstating revenue, hiding expenses, lying to investors, and shipping shoddy products. In contrast, pursuing such goals as "to bring inspiration and innovation to every athlete in the world" (Nike) and "to improve patients' lives" (AmerisourceBergen) is likely to inspire employees and encourage them to produce quality goods and services that benefit others.

Like core values, mission statements must be continually communicated and reinforced. They, too, can be undermined by inconsistent behavior. Lofty official goals do little to promote morality when leaders and followers ignore them in order to pursue their personal agendas.

Implementation Guidelines

To create your organizational mission statement, try to identify what members of your organization are passionate about, and capture this passion in your document. In the case of a business, ask what purpose would keep employees working for the group even if they had enough money to retire. Evaluate the mission statement on how well it guides, inspires, and promotes moral behavior.

3. Codes of Ethics

Codes of ethics are among the most common ethics tools. Nearly all major corporations have them, along with a great many government departments, professional associations, social service agencies, and schools.[9] Under Securities and Exchange Commission (SEC) guidelines, all publicly traded companies must have codes and enforcement procedures that apply to top-level financial and other managers. The New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the NASDAQ Stock Market all require listed companies to adopt ethics codes and disclose their content to the public.[10] Codes must include provisions that describe how the code will be enforced and how the company will respond to violations.

Codes typically address these six areas:[11]

- *Conflicts of interest.* Conflict provisions deal with cases in which employees benefit at the expense of the organization or in which an individual's judgment might be compromised. Cases of conflict of interest include accepting gifts from suppliers or diverting contracts to relatives. Former Enron CFO Andrew Fastow provides one blatant example of conflict of interest. While working for Enron, he set up partnerships that generated millions in fees for himself at the company's expense. Now, federal guidelines dictate that any waiver of conflict of interest provisions must be promptly reported to shareholders. (We'll take a closer look at financial conflicts of interest in the next chapter.)
- *Records, funds, and assets.* All chartered and tax-exempt organizations must keep accurate financial records. Publicly traded firms must follow SEC regulations as well as state and local laws and their own bylaws.
- *Information.* For-profit organizations try to keep information from competitors. Revealing such data—even to family members—can result in legal action. Public sector organizations, on the other hand, may have codes that encourage compliance with "sunshine laws" that require the release of information.
- *Outside relationships.* Relationships with suppliers, competitors, government agencies, and others have legal and ethical ramifications. Members must avoid behaviors ranging from collusion, price-fixing, and insider trading to gossiping about the competition.

- *Employment practices.* Employment provisions deal with discrimination, drug use, sexual harassment, aggression, and related issues.

- *Other practices.* This category incorporates statements about employee health and safety, the use of technology, treatment of the environment, political activities, overseas conduct, and other topics. One provision found in many codes forbids the use of organizational assets for personal benefit. According to Coca-Cola's code of ethics, such assets include work time, work products, equipment, vehicles, computers, and software, as well as the company's information, trademarks, and name.[12] (See Case Study 10.1 for a closer look at the ways employees use organizational technology for personal use and how firms should respond.)

Despite their popularity, formal ethics statements are controversial. Skeptics argue that they are vague public relations documents designed to improve an organization's image. Few employees know what the codes say, and their provisions are rarely enforced. Worse yet, critics say, codes are ineffectual. These statements do nothing to improve ethical behavior.

Defenders of ethical codes point out that such documents describe an organization's ethical position to insiders as well as outsiders. They are particularly important to newcomers who are learning about the work group's ethical standards and potential moral problems they may face. Referring to a code can encourage members both new and old to resist unethical group and organizational pressures. In the case of wrongdoing, an organization can point to the code as evidence that the immoral behavior is not official policy. Most important, ethics codes can have a direct, positive influence on ethical behavior.[13] Students who sign honor codes, for example, are significantly less likely to plagiarize and cheat on tests.[14] Codes influence ethical perceptions even when organizational members don't remember exactly what is in them. Those in organizations with codes judge themselves and their coworkers as more ethical than those in organizations without codes. They believe that their organizations are more supportive of ethical behavior, and they are more satisfied with their group's moral decisions. These employees feel freer to act ethically and are more committed to their organizations.[15]

Researcher Mark Schwartz identified eight metaphors that can help explain how codes influence ethical behavior. These metaphors and their impact on the actions of organizational members are described below.[16]

Rule book: The code clarifies what behavior is expected of employees. Outcome: Members read the code and follow its provisions.

Signpost: The code encourages members to consult with others or organizational policies to determine if an action is ethical. Outcome: Members speak with a manager or an ethics officer and follow the advice they receive.

Mirror: The code confirms whether or not a behavior is acceptable. Outcome: Greater compliance with required behaviors.

Magnifying glass: The code cautions members to exercise care before moving forward. Outcome: Reduces the likelihood of unintentional violation of rules.

Shield: The code equips members to challenge unethical behavior and helps them resist the pressure to engage in unethical activities. Outcome: Increased resistance to unethical requests.

Smoke detector: The code empowers individuals to warn others about inappropriate activities and to convince them to stop. Outcome: Members are more likely to end their unethical behavior.

Fire alarm: The code causes members to contact the appropriate people or offices to report violations. Outcome: The organization intervenes to stop unethical behavior; members are deterred from engaging in immoral activities.

Club: The code is used to force members to comply with its provisions. Outcome: Members modify their behavior due to the threat of discipline.

Implementation Guidelines

While adopting a code doesn't guarantee moral improvement, the evidence cited above demonstrates that codes can play an important role in fostering an ethical environment. You need to encourage your organization to develop a formal set of ethical guidelines, using the input of a variety of organizational members. Make sure that the language of the code is understandable and that employees can meet its expectations. Distribute the document to everyone in the organization. Provide training so workers know how the code provisions apply; provide opportunities to ask questions. Standards will have most impact when senior executives make them a priority and follow their provisions while at the same time rewarding followers who do the same. Back your code up with enforcement. Create procedures for interpreting the code and applying sanctions. Set up systems for reporting problems, investigating charges, and reaching conclusions that are fair and impartial.[17] Listen carefully to determine which metaphors are used to describe the code of ethics in your organization, and adjust these perceptions if necessary. For example, if employees at your firm see the code as a club used to punish unethical behavior, you may want to encourage them to take a more positive perspective, viewing the code as a signpost instead.

CASE STUDY 10.1

Cyberloafing

Internet access has created a new way to procrastinate at work called *cyberloafing* or *cyberslacking*. In cyberloafing, employees use organizational computers, tablets, and smart phones for nonproductive activities like surfing the Web for personal information,

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playing games, posting Facebook messages, or shopping and chatting online. In one survey, respondents reported spending an average of 51 minutes every workday cyberloafing. Men are more likely to cyberloaf than women.

Many observers consider cyberloafing unethical because it diverts time and attention from organizational tasks and lowers productivity. However, some researchers suggest that cyberslacking can have positive effects. Non–job-related Internet use reduces stress, can stimulate creativity, enhances employees' sense of well-being, and helps workers manage their lives so that they can spend more time at work. For example, instead of leaving the office to meet with their children or to run errands, employees can e-mail their kids and conduct banking and other tasks online. Then, too, many employees work online when they are at home, more than making up for any time they spend cyberloafing at the office.

Rather than trying to outlaw cyberloafing, organizations can regulate and monitor it instead. Some companies create technology use (TU) codes of conduct that spell out organizational policies and guidelines for Internet use. Some TU codes urge employees to use the Internet and e-mail responsibly, stating that personal use should not interfere with work productivity. Others contain specific provisions that limit the amount of time spent on non–work-related business or specify times when such activity is forbidden.

Discussion Probes

1. Do you cyberloaf? Under what circumstances?

2. Is cyberloafing unethical? Why or why not?

3. What limits, if any, should be put on using organizational computers and other electronic devices for personal use?

4. If you were to create a technology use code for Internet use, what guidelines would you include?

5. How would you discipline those who violate your TU code?

SOURCES: D'Abate (2005). Garrett and Danziger (2008). Griffiths (2010). Henle and Blanchard (2008). Lavoie and Pychyl (2001). Lim and Chen (2012). McGill and Baetz (2011).

4. Structure

Structure influences moral behavior through the creation of authority relationships, delineation of lines of accountability, and allocation of decision-making rights.[18] As we saw in Chapter 8, leaders are granted a great deal of power over the lives of followers. Their power is enhanced by the fact that people appear "programmed" to obey authority.[19] The greater the demand for obedience, the higher the likelihood that employees will engage in unethical activities and keep silent about the ethical violations they observe.[20]

Lines of accountability are blurred in many large, complex organizations, diffusing responsibility for choices and actions. The result can be an increase in immoral behavior. Managers may deliberately keep themselves in the dark about illegal activities so that they can maintain "plausible deniability" if the wrongdoing ever comes to light. Division of labor and compartmentalization can distance employees from the consequences of their choices.[21] One department can develop a drug, for example, and expect that another department will test it for side effects. At the same time, another unit will market the drug, assuming that the medication is safe. However, the testing group may fail to communicate that there is no way to accurately determine side effects. A harmful drug (like thalidomide, which caused serious birth defects) is released as a result.[22] Individuals may also shift ethical responsibilities from themselves to their roles. They use their jobs as cover by claiming that they had no choice but to engage in unethical behavior or that there was little that they could do to stop immoral or illegal activities.

Allocation of decision-making rights is another important structural determinant of moral behavior. Empowered employees are more likely to make better ethical choices (see Chapter 5). Those closest to the problem are best equipped to solve it and are more likely to be sensitive to ethical issues. Denying decision-making authority to such knowledgeable workers can be costly. This was vividly illustrated in the *Challenger* and *Columbia* space shuttle disasters. In both cases, managers overruled lower-level engineers who had safety concerns.

Implementation Guidelines

Try to modify structural defects that contribute to immoral behavior. As a leader, encourage others to challenge orders and at times disobey them. Help your employees to recognize how their activities relate to the organization's overall direction and to consider how their actions affect others. Ensure that those closest to the ethical dilemma have significant input into how it is resolved.

5. Boards of Directors

Boards of directors sit at the top of the organizational structure. Boards act as the link between those who own the corporation or support the nonprofit and the managers who run the organization. Their role is to see that the organization's business is conducted in the best interests of the stockholders or supporters.[23] They select and oversee top managers who, in turn, set the ethical tone of the organization. Corporate board members have two legal duties—the duty of loyalty and the duty of care. *Duty of loyalty* means that a director must be always loyal to shareholders. For example, an individual can't sit on the boards of two companies (like McDonalds and Wendy's) that compete against each other. *Duty of care* requires that a director make a diligent effort when making decisions, discovering as much information as possible and considering all the alternatives. If a board member meets both of these responsibilities, then the courts generally won't challenge the director's decision, deferring to her/his business judgment.

According to the Business Roundtable, an association of chief executive officers, boards of directors should follow these nine ethical principles.[24]

1. Select the CEO and oversee the CEO and senior management to make sure they operate in a competent and ethical manner.

2. Ensure that top leadership establishes a culture that emphasizes integrity and legal compliance. The goal should be to create long-term value for shareholders through ethical operations. Neither the directors nor management should put personal interests ahead of the interests of the corporation.

3. Help management develop and implement strategic plans. Directors must understand the risks in the company's corporate strategy and help managers prepare for them.

4. Produce accurate financial statements that reflect the true state of the company; disclose information that would impact stock value in a timely manner.

5. Hire an independent accounting firm to audit financial statements prepared by management.

6. Determine the makeup of the board and assess the skills and experience of board members. This includes developing a plan for board succession.

7. Implement compensation policies for top management that are aligned with the firm's strategy. Compensation ought to be tied to corporate performance and compensation policies should be communicated to shareholders.

8. Engage with long-term shareholders about their issues and concerns.

9. Deal with employees, customers, suppliers, and others in a fair manner, according to "the highest standards of corporate citizenship."

Directors are in a difficult spot. They oversee managers, but the managers determine what information directors receive.[25] The CEO is often a very powerful figure who can sway the group's opinion. When the CEO is the chairman of the board, that individual may end up evaluating her or his own performance. Boards have limited time to learn about the day-to-day operations of organizations that in some cases employ hundreds of thousands of people. Some directors serve on multiple boards, which further reduces the time and energy they can devote to their duties. If these challenges weren't enough, directors on some boards are beholden to top management. They might be friends with the CEO, do business with the company, or receive donations from the firm. CEOs may sit on one another's boards. This creates a "you scratch my back and I'll scratch yours" mentality. A CEO is likely to approve a generous pay package for a fellow CEO in hopes that the other CEO will return the favor. Directors who disagree with the CEO or fellow board members' opinions are often the victims of groupthink. They may be asked to leave the board because they threaten the group's cohesion.

Given these factors, it is not surprising that many of the major ethical failures of the past 40–50 years can be blamed in large part on corporate and nonprofit boards. 2000–2002 was a watershed period for unethical corporate governance. Directors at Adelphia, Tyco, K-Mart, WorldCom, Global Crossing, and other firms failed both their legal and ethical duties. They did little to stop top managers from making risky investments, diverting funds for personal use, engaging in accounting fraud, lying to investors, and so on. The collapse of Enron, in particular, created a crisis of confidence in corporate boards. Directors at Enron gave their approval to off-the-books financial arrangements that hid corporate debt and benefitted managers at the expense of shareholders. They approved unethical accounting methods and misguided investments that put the company in danger. The firm, once the fifth largest corporation in the United States with a value of $100 billion, collapsed. Investors lost millions; employees lost their jobs and retirement savings. In response to the Enron debacle and other corporate scandals, Congress passed the Sarbanes-Oxley Act. Under its provisions, CEOs must personally attest to the accuracy of financial statements under the threat of imprisonment; board audit committees must have at least one member with financial expertise. In addition, the New York Stock Exchange now requires that member firms have boards consisting of a majority of independent directors who meet regularly without management.

Implementation Guidelines

Future boards will likely fail to carry out their duties, thus helping to sustain unethical organizational cultures. But corporate governance experts suggest that such failure is much less likely if companies follow several guidelines.[26] First, separate the roles of board chair and CEO, designating an independent director as chair. Second, ensure that the company is living up to the requirements of the Sarbanes-Oxley Act. Third, ask managers to present options for decisions, not reports. Fourth, make sure that directors make a concerted effort to gather the information they need, talking to lower-level managers, visiting company or nonprofit locations, and so forth. Home Depot, for example, asks its directors to spend one day a month at one of its stores and to visit 8–10 outlets a quarter. Fifth, prevent top officers from serving on the boards of other companies or nonprofits. Sixth, don't allow a director to serve on more than two boards. Seventh, be sure that boards should put their responsibilities ahead of group cohesion, welcoming dissent instead of repressing it.

6. Reward and Performance Evaluation Systems

Organizational members determine what actions are measured and rewarded. They then engage in those activities, moral or otherwise. That fact makes reward systems a powerful determinant of ethical or unethical behavior. Unfortunately, ethical behavior often goes unnoticed and unrewarded. (Who gets praised for NOT padding expense accounts or NOT inflating earnings?[27]) Organizations often reward immoral behavior instead, as in the case of Washington Mutual Savings. Loan officers approved

unsuitable and fraudulent mortgages because they were rewarded for doing so. The lender collapsed when losses from these bad loans mounted, causing the largest bank failure in the history of the United States.[28]

Focusing on ends to the exclusion of means is another problem with many reward and performance appraisal systems. Consumed with the bottom line, leaders set demanding performance goals but intentionally or unintentionally ignore how these objectives are to be reached. They pressure employees to produce sales and profits by whatever means possible. Followers then feel powerless and alienated, becoming estranged from the rest of the group. Sociologists use the term *anomie* to refer to this sense of normlessness and unease that results when rules lose their force.[29] Anomie increases the likelihood that group members will engage in illegal activities, and it reduces their resistance to demands from authority figures who want them to break the law. Loss of confidence in the organization encourages alienated employees to retaliate against coworkers and the group as a whole.

Implementation Guidelines

Use the following strategies to help ensure that reward and performance systems in your organization reinforce rather than undermine ethical behavior:

- *Catch people doing good (reward moral behavior that might otherwise go unappreciated).* Publicly acknowledge workers who offer outstanding customer service, government departments that spend taxpayer money wisely, and so on.

- *Evaluate current and proposed reward and performance systems to ensure that they are not reinforcing undesirable behavior.* In particular, take note of possible unintended consequences. Consider the case of teacher performance standards based on student test scores. Such standards are supposed to improve learning but can encourage teachers and administrators to cheat (provide too much assistance to pupils, change answers) in order to boost test results. That was the case in Atlanta, where 35 educators, including principals, teachers, test coordinators, and the former district superintendent, have been charged with altering test answers.[30]

- *Avoid a bottom-line mentality.*[31] Financial returns (profits, donations) are critical to business and nonprofits alike. Yet focusing solely on the bottom line blinds decision makers to other important responsibilities, like supporting workers and the community. Develop other measures of performance, such as civic involvement and work-family balance. (We'll take an in-depth look at alternative performance scorecards in Chapter 12.)

- *Evaluate based on processes as well as on results.* Measuring how individuals achieve their goals should be part of any performance review process. Provide incentives for moral behavior and disincentives for unethical actions. Punish salespeople who lie about delivery times or exaggerate the features of products, for instance. Resist the temptation to forgive organizational "stars" who generate great results while bending the rules. To reinforce the importance of ethical process, the U.S. Army's chief recruiting officer held a day-long "values stand-down." He took this action after recruiters were accused of making their enlistment quotas by helping unqualified applicants cheat

(pass drug tests, hide criminal records). During the stand-down, recruiters viewed a video on army values, reviewed their oaths of office and correct procedures, and discussed current recruiting challenges.[32]

7. Reporting and Communication Systems

SEC guidelines require publically held companies to have systems in place for reporting ethical violations. Amendments to the 2004 Federal Sentencing Guidelines require that these mechanisms ensure "anonymous or confidential reporting."[33] Ethics hotlines are the most common reporting tool. Employees use the hotlines, many of which operate 24 hours a day 365 days a year, to ask for advice and to report ethical problems. One hotline provider studied 200,000 calls and found that two-thirds were made without first talking to management. Nearly two-thirds of reports sparked investigations with nearly half resulting in some action being taken.[34] Members should also be able to contact ethics staff in person for advice and to report problems. To be effective, a reporting system must have the support of top management, protect whistle-blowers, and promptly follow up on allegations of wrongdoing.

Organizations also need systems for communicating ethics messages. Managers should use a wide variety of channels (e.g., e-mail, newsletters, bulletin boards, video conferencing, speeches, meetings) to send messages about corporate values, the provisions of ethics codes, disciplinary actions, and so on. Constant communication is essential to reinforce the importance or salience of ethics. However, ethics communication systems need to allow for reflection and feedback. Managers and employees ought to have regular opportunities to discuss ethical issues and values, to analyze past mistakes, and to admit and rectify errors.[35]

Implementation Guidelines

Get the buy-in of top leaders for any reporting system. Provide adequate funding to staff the ethics office and hotlines. Ensure that all reports are confidential and that whistle-blowers are shielded from retribution. If most of your hotline users seek information, take that as a good sign that the system is working. Employees seeking advice are likely trying to prevent problems before they develop. Use every channel possible to continually communicate ethics messages. Create an atmosphere where members feel free to discuss ethical issues. Set aside time for ethical reflection and feedback; engage in active listening.

8. Ethics Officers

Ethics officers are charged with making sure that their organizations comply with the law and engage in ethical conduct. They "provide strategic and operational leadership to the ethics and compliance program."[36] The number of ethics officers at large corporations has skyrocketed in recent years. According to one survey, the percentage of U.S. companies with a chief ethics and compliance officer soared from 10% to 75% between

2005 and 2010.[37] Nearly half of the chief compliance officers surveyed in 2012 reported that their staff and budgets had grown over the previous year.[38] Much of the increase in the number of ethics officers, as well as in budgets and staff, is undoubtedly due to the fact that having a chief ethics officer signals to regulators that the company is serious about compliance. When firms with ethics officers violate the law, they generally receive lower fines. However, organizations are increasingly recognizing the importance of the position. In the past, ethics officers used to hold other titles, like general counsel or human resource director. Now, more chief ethics officers focus exclusively on their ethics and compliance duties.

Two factors are key to the success of chief ethics officers. First, they must have sufficient power and status to command the respect of organizational members and enforce ethical standards.[39] In ethical turnaround situations like the ones at Computer Associates and KPMG, for example, former judges and prosecutors were given wide-ranging power to root out unethical behavior. At Tyco, once notorious for corporate excess and scandal, Eric Pillmore was hired as vice-president of corporate governance to oversee the company's ethical transformation. He spearheaded the development of a new corporate code of conduct and then visited sites around the world to introduce the new standards. Pillmore instituted performance evaluations that were based in part on how well employees demonstrated the values of integrity, excellence, accountability, and teamwork.[40]

Second, EOs must have the necessary independence to function effectively. Some experts argue that the EO (as was the case at Tyco) should report directly to the board of directors, not to senior management. Those who report to the CEO may be hesitant to challenge his or her behavior for fear of being fired. That was the case at Strong Capital Management. Tom Hooker, the chief compliance officer, knew that company chairman Richard Strong was engaged in irregular trading practices that favored some shareholders (including Strong himself) while hurting others. However, Hooker didn't try to stop Strong. The Securities and Exchange Commission not only punished Strong but also fined Hooker $50,000 and banished him from the investment industry for aiding and abetting the former CEO.

Common duties of ethics officers include these:

- Advising top management and the board of directors
- Ensuring that the company makes the necessary regulatory filings
- Resolving discrimination and sexual harassment cases
- Creating ethics training
- Instituting ethics reforms
- Developing and revising ethics codes
- Monitoring ethical performance
- Ensuring continual ethical improvement
- Overseeing complaint systems
- Chairing ethics committees
- Creating ethics policies
- Communicating ethics concerns and policies to employees

- Enforcing the discipline process
- Representing the interests of shareholders and stakeholders

Implementation Guidelines

Make the ethics officer role a full-time position, and have the board of directors make a strong statement of support for the position. Give the EO the power to interview, challenge, and discipline anyone in the organization. Be sure the office gets adequate funding and that the CEO consults regularly with this person. Have the EO report directly to the board of directors.

Informal Elements

1. Language

Informal language is the type of talk used in daily organizational conversations. Such talk reflects underlying attitudes and values. As you read Case Study 10.2, for example, note how the vocabulary at Goldman Sachs changed as the ethical climate deteriorated. Labels like "rabbis" and "culture carriers" were replaced by terms like "quants," "hunt elephants," and "muppets." Language can also blind members to the ethical implications of their actions. Ethics officers report that the word *ethical* is "charged" and "emotional" for some workers.[41] These employees become defensive if their decisions are challenged. They're more comfortable using words like *shared values, mission,* and *integrity* instead. The fact that many employees are uneasy with ethical terminology, coupled with the fact that many managers are morally mute (see Chapter 3), makes it less likely that members will identify the ethical implications of their choices. They decide based on efficiency, profitability, convenience, or other criteria instead of on moral principles. Unethical choices are more likely to result.

Not only do organizational members avoid ethical terminology, they sometimes invent euphemisms to avoid thinking about the true ethical implications of their choices. It is easier to send troops on a military "mission" than into a full-fledged war, for example, or to "counsel someone out of an organization" instead of firing this individual.

Implementation Guidelines

Be alert to what your organization's vocabulary says about its values and challenge inappropriate labels. You and your colleagues need to become comfortable with moral terminology to encourage ethical behavior. Employ such vocabulary when discussing routine decisions and behaviors. Reject terms that hide the moral dimension of activities.

2. Norms

Norms are widely accepted standards of behavior that reveal how an organization "really works."[42] Some norms ("Deal honestly with suppliers"; "Pitch in to help team

members") support ethical conduct. Others ("Do whatever it takes to get the lowest price"; "Do as little as you can") encourage immoral behavior instead. Norms generally exert more influence over individual behavior than formal rules and policies do, which helps explain why some codes of ethics are ineffectual. Members will generally do what is expected and accepted even if it is officially forbidden.

Implementation Guidelines

Your organization's norms should be aligned with its ethical codes and policies. Identify important informal standards, and then determine if these norms support your organization's stated rules, mission, and values. If they don't, consider how they might be modified (see Application Project 5 at the end of the chapter).

3. Rituals

Rituals are organizational dramas that are repeated at regular intervals. They capture our attention, evoke an emotional response, and help shape our beliefs.[43] Actors follow carefully planned scripts in front of selected audiences; costumes and props may be involved. Take the retirement party, for instance. In this common ritual, workers and managers step away from their usual routines to acknowledge the departing employee. These events typically include food, speeches, and presentations of parting gifts.

Rituals serve many functions, some more visible than others. The manifest function of the retirement party is to honor the retiree while marking an official change in this individual's relationship to the group. Latent or hidden functions of this rite include reinforcing the values and expectations of the organization, demonstrating respect for individuals, cementing the bonds between employees, and signaling that the organization will continue even as it loses valuable members.

Harrison Trice and Janice Beyer provide the most popular typology of organizational rites based on their functions. These six rituals include the following:[44]

- *Rites of passage.* These dramas mark important changes in roles and statuses. One of the most dramatic rites of passage is military boot camp. New recruits are stripped of their civilian identities and converted into soldiers, with new haircuts, uniforms, and prescribed ways of speaking, standing, and walking. Rites of passage impart important values and enforce behaviors. In military boot camps, recruits learn the importance of obeying authority. In company boot camps in Japan, new employees develop loyalty to their firms.
- *Rites of degradation.* Degradation rituals lower the status of organizational members, as when an officer is stripped of rank or when a player is kicked off the team. These routines identify punishable behaviors and signal the organization's willingness to stand behind its values.
- *Rites of enhancement.* In contrast to rites of degradation, rites of enhancement raise the standing of organizational members. Giving vacation trips to top salespeople, announcing the university's teacher of the year, and identifying the team's most valuable

player are examples of this type of ritual. Recipients become positive role models, illustrating how members can get ahead in the organization.

- *Rites of renewal.* These rituals strengthen and improve the current system. Examples include team-building exercises, Six Sigma quality processes, and organizational development (OD) programs. The manifest function of such rituals is to bring about improvement. However, they also have hidden consequences, like reassuring members that the organization is dealing with problems and focusing attention toward some issues and away from others.

- *Rites of conflict reduction.* Organizations develop rituals for releasing tension and managing conflicts. Common conflict resolution rituals are collective bargaining sessions and committee meetings. In collective bargaining, union and management representatives engage in such ritualistic behavior as presenting demands and proposals, talking long hours, and threatening to walk out. In committees, members try to resolve differences between competing interests and cooperate to solve problems. The formation of a task force or committee signals that organizational leaders are serious about addressing issues.

- *Rites of integration.* Integration dramas tie members into larger systems, reinforcing feelings of commitment and belonging. Companies hold holiday parties and picnics where members of all ranks mix informally. Integration ceremonies also bind individuals to regional, national, and international associations. Annual conventions and conferences connect professors, lawyers, and doctors to larger professional communities.

Rites of passage, degradation, and enhancement have manifest ethical functions. They reinforce important values, provide role models, and identify desirable and undesirable behaviors. In contrast, rites of renewal, conflict reduction, and integration have latent moral effects. One of the latent ethical effects of renewal rites is the highlighting of important organizational priorities. For example, a company may focus on cost cutting while ignoring diversity issues. Rites of conflict reduction send indirect yet important messages about how an organization values its people. Most airlines are locked into hostile relationships with their unions, for instance. Not so at Southwest Airlines. It treats unions as partners, thus reinforcing the firm's emphasis on building high-quality relationships.[45] Integration rituals, which are designed to increase feelings of belonging, also have the latent effect of tying members to the values and codes of conduct of larger groups.

Implementation Guidelines

Since every ritual has an impact on ethical behavior, direct or indirect, you will need to carefully analyze each one. Some questions to consider include these: What values and behaviors are being reinforced? What priorities are being communicated? Are these values, behaviors, and priorities desirable and ethical? Are important ethical issues being ignored? What might be the unintended ethical consequences of this ritual? (See Application Exercise 6.)

Trice and Beyer suggest modifying rituals rather than eliminating them. Discontinuing rituals can be risky, since they are important events in the life of the organization. Instead, change current rites and add new ones. Open your firm's books to union personnel during negotiations instead of shutting them out, for instance. Introduce an ethics award to your company's annual gathering, or reward teams of salespeople rather than individuals.

4. Stories

One way to determine an organization's ethical stance is to examine its stories. Narratives, as noted in Chapter 2, provide meaning, impart values, and promote desired behavior. A tale qualifies as an organizational story when (1) many people know it, not just a few individuals, (2) the narrative focuses on one sequence of events rather than an extended history of a person or organization, (3) central characters are organization members, and (4) the story is supposedly true.

Joanne Martin of Stanford University divides organizational stories into two parts: the narrative itself and the interpretations or morals of the story that follow.[46] Both the narrative and its meaning vary depending on the storyteller, audience, and organizational context. Martin provides three examples of a common story that illustrate how the same basic narrative pattern can send different ethical messages. In the first version of the story, a security guard refused to let IBM chair Thomas Watson enter a restricted area without the proper badge. Instead of firing her, Watson sent someone off to get his badge. In the second version, an assembly-line worker ordered the president of another company to leave the work area and return with his safety glasses. He apologized and obeyed, impressed with the fact that the employee was not intimidated by his organizational rank.

These two accounts demonstrate the importance of upholding the rules regardless of status. In both cases, the high-ranking official complied, thus reinforcing the behavior of the employee. The third variation of the story is quite different and paints a much more negative picture of corporate values. At the Revlon Company, everyone was to sign in when they arrived in the morning. One morning, company founder Charles Revson arrived and picked up the sign-in sheet. The receptionist, who was new, refused to let him take the sheet because she was under "strict orders that no one is to remove the list." Revson then asked her, "Do you know who I am?" She replied that she did not. "Well," Revson said, "when you pick up your final paycheck this afternoon, ask 'em to tell ya."[47]

Heroes play a particularly important role in organizational narratives. They embody organizational values while modeling desirable behaviors. IBM's Thomas Watson was one such figure. Watson's response to the lowly security guard demonstrated how important it was to obey the rules and to treat others with respect. Stories about Watson are still told at IBM and continue to guide behavior. Another enduring corporate legend is that of the 1950s-era Motorola senior executive who negotiated a large sale that would have increased company profits by 25% for that year. However, he walked away from negotiations when the other party demanded a $1 million bribe.

Motorola CEO Robert Galvin publicly backed the executive's action and made him an example by telling and retelling his story. Of course, heroes aren't always executives. Wal-Mart's website told the story of a local employee, Norman Price, who returned $11,000 he discovered in a shopping cart. (Case Study 10.3 provides an in-depth look at how one organization makes strategic use of a major story highlighting the achievements of its workers.)

Not all those cast as heroes truly deserve that label. Enron's Jeffrey Skilling and top trader Lou Pai created a fictional trading floor to impress financial analysts during a 1998 meeting. Visitors were escorted into what was called the Enron Energy Services war room. During their 10-minute tour, they "beheld the very picture of a sophisticated, booming business: a big open room bustling with people, all busily working the telephones and hunched over computer terminals, seemingly cutting deals and trading energy."[48] In reality, it was all a ruse. The room was filled with secretaries and other employees who were brought in for the demonstration and coached to look busy. One administrative assistant reports that she was told to bring her personal pictures to make it look like she worked at the desk where she sat. The analysts (who were charged with evaluating the financial health of the firm) were completely fooled. Skilling and his accomplices were seen as heroes, which helped foster the climate of deception that led to the firm's collapse.

Implementation Guidelines

Tell stories that reinforce important cultural values. Strive to find heroes who embody these values and provide positive role models; tell their stories at every opportunity. However, your most pressing task may be to reduce the damage done by stories currently being told in your work or volunteer group. Take the case of a tale of an abusive executive, for instance. This narrative, which illustrates how poorly the company treats its employees, can be reframed. If you fire the abuser, the tale serves as an example of how the organization has changed. Lay the groundwork for more positive stories by modeling moral behavior, which can become the basis for future tales.

Cultural Change Efforts

Every component of culture contributes to the formation of an ethical organizational environment. However, by focusing on each element, it is easy to lose sight of the reality that cultures function as interrelated systems. If you want to change an organization's ethical culture, you must simultaneously address all the components described in the previous section. In fact, introducing piecemeal changes can backfire. Members can become more entrenched in their current behavior patterns when, for example, managers create a new values statement without also changing the way employees are rewarded and evaluated. Disillusioned workers conclude that management isn't really serious about moral behavior. They greet future ethics initiatives with skepticism.

Highly ethical organizations make sure that cultural components align or support one another.[49] Ethical codes are backed by norms, stories reflect core values, structure

supports individual initiative, and so forth. These collectives also demonstrate ethical consistency. All units and organizational levels share a commitment to high moral standards. Ethical values are factored into every organizational activity, be it planning and goal setting, spending, gathering and sharing of information, or marketing. Further, constituents are encouraged and equipped to make ethical choices following core principles.

Ethical Drivers

Ethical drivers are factors that play a particularly significant role in promoting or driving systematic ethical change. Without them, any change effort is likely to fail. These drivers include ethical diagnosis, engaged leadership, targeted socialization processes, ethics training, and continuous ethical improvement.

Driver 1: Ethical Diagnosis

Determining the organization's current ethical condition should be the first step in any systematic change initiative. Diagnosis surfaces moral strengths and weaknesses, areas of misalignment, the criteria for making ethical choices, and shared perceptions of the organization's moral health. These data should then drive the rest of the change effort. For example, the American Hospital Association (AHA) created a six-part organizational assessment tool that focuses on ethics documents, ethics training, organizational structure, organizational character, specific ethical challenges facing the organization, and employee assessment of the organization's ethical performance. Follow-up to the AHA assessment includes developing detailed plans to address problem areas, establishing new policies, redesigning orientation and training programs, and creating a casebook on ethical dilemmas.[50]

Auditing the cultural components described earlier is one way to diagnose your workplace's current ethical condition. The ethical culture audit probes both formal and informal systems, using the questions listed in Self-Assessment 10.1. When conducting the audit, use surveys, interviews, observation, and analysis to gather information. You could also ask these questions when you apply for jobs, to assess the ethical status of prospective employers.

A growing number of firms are also conducting risk assessments.[51] These assessments are designed to identify the organization's vulnerability to fraud and misbehavior. And the risks may be higher than you think. According to the Association of Certified Fraud Examiners, most frauds last eighteen months before they are exposed, and a fifth of them generate losses of at least $1 million. Organizations lose an estimated 5% of their annual revenues (approximately $3.5 trillion worldwide) to falsifying financial statements, stealing assets, insider trading, and other forms of fraud.[52] Risk assessments try to develop a comprehensive picture of the group's risk profile by asking: What is the likelihood of fraud and who is most likely to commit fraud and how? What controls are in place to prevent fraud risks? Are there any controls that are inadequate and how should we deal with risks that remain?

SELF-ASSESSMENT 10.1

Ethics Audit Questions

Use the following set of questions to evaluate the ethical culture of your current organization or one that you would like to join.

Selected Questions for Auditing the Formal System

1. How are organizational leaders perceived in terms of their integrity? Is ethics part of the 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. Does a formal code of ethics and/or values exist? Is it distributed? How widely? Is it used? Is it reinforced in other formal systems, such as reward and decision-making systems?

5. Are whistle-blowers encouraged, and are formal channels available for them to make their concerns known confidentially?

6. Is misconduct disciplined swiftly and justly in the organization, no matter what the organizational level?

7. Are people of integrity promoted? Are means as well as ends important?

8. Is integrity emphasized to recruits and new employees?

9. Are managers oriented to the values of the organization in orientation programs? Are they trained in ethical decision making?

10. Are ethical considerations a routine part of planning and policy meetings, new venture reports? Is the language of ethics taught and used? Does a formal committee exist high in the organization for considering ethical issues?

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?

(Continued)

(Continued)

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 (organizational) decision making?

7. What informal socialization processes exist, and what norms for ethical or unethical behavior do they promote? Are these different for different organizational subgroups?

Conclusion

What is your overall evaluation of this organization's ethical culture? What are its areas of strength and weakness?

Climate analysis is another way to measure moral performance. Ethical climate refers to the "shared perceptions of what is ethically correct behavior and how ethical issues should be handled in the organization."[53] Management ethicists Bart Victor and John Cullen developed the Ethical Climate Questionnaire (ECQ) to measure these perceptions. The ECQ classifies moral climates according to (1) the ethical principles that members use to make moral choices, and (2) the groups that members refer to when making ethical determinations. Members out to maximize their self-interest are guided by egoism. Individuals may also seek to benefit others (benevolence) or act according to universal standards (principle). To determine what is ethically correct, they may rely on their own judgments, refer to local organizational standards, or look to outside groups for help.

Victor and Cullen identify five climate types. *Instrumental* climates encourage self-serving (egoistic) behavior, which is often economically driven. *Caring* climates emphasize concern for others and the organization as a whole, even at the cost of meeting individual needs. *Rules* climates are governed by the policies, rules, and procedures (principles) developed within the organization. *Law and code* climates turn to external criteria or principles, like professional codes of conduct or state laws, for guidance. *Independence* climates are also principled but encourage individuals to make choices based on their personal values and ethics.

Victor and Cullen suggest that an organization's ethical orientation might make it more susceptible to some forms of unethical behavior and shape its response to change

efforts. For instance, members of caring organizations may break laws in order to help others. A written code of ethics is likely to receive a better reception in a rules or law and code climate than in a caring or independence environment.

When it comes to the relationship between climate types and ethical behavior, researchers have discovered the following:[54]

- Ethical climates often vary between departments and locations within an organization.
- Rates of immoral behavior are highest in instrumental climates.
- Organizational commitment and positive feelings toward the organization are greatest in caring climates and lowest in instrumental climates.
- For-profit climates are more likely to be driven by self-interest, while nonprofit climates are more likely to be founded on benevolence.
- An emphasis on obeying the law and adhering to professional codes reduces unethical behavior, particularly when internalized within the organization.
- Employees are more satisfied when they work for organizations with ethical climates that reflect their personal preferences.
- Professionals prefer to work for organizations with rule or law and code climates.
- Authoritarian leadership is positively related to egoistic climates and negatively related to benevolent climates.
- Climate has a similar impact on ethical and unethical behavior in a variety of cultural settings, including North America, Africa and Asia.

According to these findings, self-interest poses the greatest threat to ethical performance, and you need to confront this attitude, whether at the unit level or organization wide. Creating a more caring environment in your work group can pay off in higher trust and commitment levels; referring to rules and codes can decrease immoral behavior. Finally, match the person (yourself or potential hires) with the climate. Employees are more satisfied and are less likely to leave if their personal ethical preferences match those of the organization.

Driver 2: Engaged Leadership

Significant cultural change is extremely difficult without the buy-in of top leadership.[55] We've already noted how leaders are largely responsible for shaping organizations, play a key role in curbing or promoting destructive behaviors, reinforce or undermine values and standards, and so on.

Organizational psychologist Edgar Schein outlines six primary mechanisms that you can use in a leadership role to establish, maintain, and change ethical culture.[56]

1. *Attention.* Followers will pick up on your priorities through what you pay attention to, measure, and control. Ethics won't be taken seriously unless you consistently talk about the importance of ethical behavior, act ethically, measure moral performance, and punish those who fall short of standards. Systematically and persistently emphasize core values and mission.

2. *Reactions to critical incidents.* The way you respond to stressful events sends important messages about underlying organizational values. Some firms that value efficiency, for example, handle financial setbacks through layoffs. Others, valuing cooperation, cut costs by asking everyone to work fewer hours. Major crises quickly reveal the true ethical character of a leader and his or her organization. Johnson & Johnson CEO James Burke is a case in point. He earned widespread praise for his response to the Tylenol product-tampering crisis. Under his leadership, the company cooperated with authorities, voluntarily recalled the product, admitted when it released faulty information, and developed new packaging. In contrast, the leaders of Toyota waited months after learning of sudden acceleration problems before issuing a recall in the United States; the delay put the lives of thousands of drivers at risk. Executives at BP grossly understated the amount of oil gushing into the Gulf of Mexico following an oil rig explosion.[57]

3. *Resource allocation.* How an organization spends its money is a key indicator of its values and priorities. What types of projects get supported? How much money is devoted to ethics programs and training? Does the organization invest in the health and well-being of its employees? Does it support their personal development? The process of budgeting also reveals underlying moral assumptions. The greater the organization's commitment to empowering its members, the more likely it is to involve people from all levels of the organization in setting financial targets. Because resource allocation and budgeting send strong cultural signals, think carefully about what you want to communicate when deciding how to create the departmental or organizational spending plan.

4. *Role modeling.* Acting as a role model is more than setting an example; it also means developing others. Become a coach and teacher to others, particularly to those who report directly to you. Help them identify and manage ethical issues and develop their ethical problem-solving skills.

5. *Rewards.* Rewards, discussed earlier in the chapter as an element of performance and evaluation systems, also go hand in hand with attention mechanisms. Use them to draw attention to important goals, shared values, and desirable and undesirable behaviors.

6. *Selection.* Organizations tend to perpetuate current cultural components by hiring people who fit into the current system. If you want to reform the culture, recruit members who share the new ethical standards rather than the old ones. Include ethics in the recruiting process by highlighting corporate values and looking closely at the character of the candidate. Ask applicants such questions as "What ethics coursework did you take in college?" and "Would you accept a free gift from a supplier?"[58] One outstanding candidate for a pharmaceutical position was asked if he had ever been asked to do anything illegal in business. The candidate was happy to report that he had falsified billing records so that he and a previous supervisor could make their revenue goals. (He didn't get the job.) When selecting individuals for promotion,

advance those who support the group's mission values and, if necessary, remove those who don't.

Driver 3: Targeted Socialization Processes

Socialization describes the process of becoming a group member. To make this transition, individuals have to learn how to perform their individual roles and, at the same time, absorb information about the organization's culture.[59] There are several reasons why socialization can play a key role in driving ethical change. First, new members are most susceptible to influence and open to instruction about ethical behavior. Their values and perceptions are being formed, and they are anxious to learn how to behave in a new environment. Second, discussion of ethics can be incorporated into existing socialization programs. Third, the values learned during the socialization process will shape an employee's behavior throughout her or his career with the organization. Fourth, when newcomers become ethical veterans, they then communicate and model important values to new generations of members.

Socialization begins even before a member joins a profession or new organization or organizational unit. For instance, some would-be accountants begin adopting the attitudes and beliefs of the accounting profession before they enroll in their first accounting course.[60] Job applicants typically form impressions about the prospective organization gathered from recruitment brochures, websites, and other channels. The employment interview plays a particularly significant role in shaping these expectations. Applicants come away with an image of what the organization is like, which may be unrealistic. This can lead to dissatisfaction and a quick exit after they join.

Formal socialization mechanisms kick in when newcomers begin their membership. As they "learn the ropes," rookies participate in training and orientation sessions designed to integrate them into the organization. They also come under the influence of socializing agents. Important socializing agents include veteran coworkers who serve as day-to-day guides and sounding boards, respected senior peers who guide by example and impart organizational standards and values, supervisors who act as official guides to policies and procedures, and mentors and advisors who model core organizational values and philosophy. Mentoring relationships can play a particularly critical role in ethical socialization.[61] Mentors and mentees are accountable to one another and can discuss how to live out organizational values. They establish trusting relationships in which parties can reveal what they believe and why they hold those convictions. Close contact gives the mentor the opportunity to observe the character and behavior of the mentee in both normal and stressful situations.

Socialization concludes when newcomers become accepted members of the group. It should be noted that new members aren't merely sponges that soak up cultural information. They also help to shape the culture by introducing new values and practices. Those who disagree with important organizational goals and values are generally less

productive and more likely to find employment elsewhere.[62] To determine how well you have been socialized into the goals and values of your organization, complete Self-Assessment 10.2.

Unfortunately, socialization processes may contribute to immoral behavior. New members can be corrupted through cooptation, incrementalism, and compromise.[63] In *cooptation,* the organization uses rewards to reduce newcomers' discomfort with unethical behaviors. Targets may not realize that these incentives are skewing their judgment, making it easier to rationalize poor behavior. For example, brokers who are rewarded for pushing certain stocks may convince themselves that these picks are outstanding investments. *Incrementalism* gradually introduces new members to unethical practices, leading them up the "ladder of corruption." Newcomers are first persuaded to engage in a practice that is only mildly unethical. They turn to the rationalizations offered by their peers ("Everybody does it"; "Nobody was really hurt"; "They deserved it") to relieve the cognitive dissonance produced by this act. After the first practice becomes normal, acceptable behavior, individuals are then encouraged to move on to increasingly more corrupt activities. In the end, they find themselves participating in acts that they would have rejected when they first joined the organization. *Compromise* "backs" members into corruption as they strive to solve dilemmas and conflicts. Politicians, for instance, enter into lots of compromises in order to keep and expand their power. Cutting deals and forming networks makes it harder for them to take ethical stands.

The danger of dysfunctional socialization is greatest when newcomers join a social cocoon. A *social cocoon* is a strong culture in which norms and values are very different from those in the rest of the organization or society. In cocoons, members highly prize their membership in the group and tend to compartmentalize their lives, holding one set of values outside work and another on the job. At a prestigious law firm, a cocoon may develop as new attorneys strive to become partners. Veterans of the firm (whom newcomers admire) may encourage rookies to overbill for services and to neglect their families by working extremely long hours. The recent law school graduates put aside their misgivings about these patterns, blaming themselves for their doubts rather than blaming the firm for encouraging unhealthy practices.

As a change agent, target the socialization process in your work group to promote positive ethical change rather than reinforce corrupt behavior. Start with clearly describing your organization's values and ethical climate in the employment interview. Paint a truthful picture of conditions in your organization. Ask applicants about their ethical experiences and standards. Ensure that ethics is a top priority in orientation and training sessions. Communicate core values and mission statements, present the code of ethics, highlight potential ethical dilemmas, introduce ethics officers and procedures, and engage in ethics discussions. Then, place newcomers with socializing agents, particularly mentors, who reinforce rather than undermine values and standards. Provide channels for new hires to express their concerns about ongoing practices. Puncture the social cocoon by training employees to think about the perspectives of outsiders and by bringing in external change agents (new leaders, consultants, speakers).

SELF-ASSESSMENT 10.2

Socialization Scale

This scale, adapted from a much longer instrument, measures how well you have learned/adopted the goals and values of your organization. Complete this scale for an organization of your choice (work, nonprofit, college or university).
1 = strongly disagree 5 = strongly agree.

1. I would be a good representative of my organization.

2. The goals of my organization are also my goals.

3. I believe I fit in well with my organization.

4. I do not always believe in the values set by my organization.

5. I understand the goals of my organization.

6. I would be a good example of an employee (member) who represents my organization's values.

7. I support the goals that are set by my organization.

Scoring

Reverse your score on item 4 and add up your total. Scores can range from 7 to 35. The higher the score, the more complete your socialization process and organizational fit.

SOURCE: Adapted from Chao, G. T., O'Leary-Kelly, A. M., Wolf, S., Klein, H. J., & Gardner, P. D. (1994). Organizational socialization: Its content and consequences. *Journal of Applied Psychology, 79*, 730–743. Copyright © 2016 by the American Psychological Association. Reproduced with permission.

Driver 4: Ethics Training

Formal ethics training, as we've seen, should be part of the socialization process. However, the need for ethics education doesn't end when members are assimilated into the group. Ongoing training can play an important role in creating and maintaining ethical environments. Training sessions can increase moral sensitivity and moral judgment, make it easier to use moral vocabulary, reduce destructive behaviors, prevent scandals, reinforce mission and values, and integrate ethical considerations into the fabric of organizational life.

Of course, offering ethics training is not a panacea. There is no guarantee that those who attend will make better decisions or change their behaviors; poorly designed training programs can actually increase resistance to change. Nonetheless, effective

ethics training can make a positive difference in your organization. Effective training does the following:[64]

1. *Focuses on your organization's unique ethical problems.* The most useful training addresses the dilemmas encountered by group members. Issues that professors face (grading, academic freedom, tenure decisions) will be different from those encountered by physicians (managed care, patient privacy, malpractice), for example. Help your organization's employees identify potential ethical issues that may be hidden at first. Introduce examples drawn directly from the organization, industry, and profession. Equip trainees with the tools they need to solve these dilemmas.

2. *Allows plenty of time for discussion and interaction.* Key concepts can be presented in lectures and handouts, but spend most of your class time in dyadic, small group, and large group discussion. Introduce case studies, raise questions, and debate issues. Trainees can also interact about ethical issues outside of class via the Internet. However, be cautious about offering ethics training solely over the Internet. Web-based programs are not as conducive to in-depth discussion of complex ethical issues.

3. *Taps into the experiences of participants.* Ask your trainees to provide dilemmas and insights drawn from their own experiences. Participants then become the instructors, teaching one another. They also receive feedback that enables them to better handle their dilemmas.

4. *Is integrated into the entire curriculum.* The stand-alone ethics workshop or class promotes moral reasoning but is easily disconnected from the rest of the organization's activities. Whenever possible, you should integrate ethics discussion into other subjects, like sales skills, leadership development, conflict management, and supervision.

Chapter Takeaways

- Strive to create organizations that are ethically transformed rather than ethically decoupled. Transformed organizations are ethics driven; values and standards shape behaviors, decisions, and relationships.
- Both the formal and informal components of your organization's culture will influence the ethical behavior of employees. You need to address all of these elements to foster an ethical workplace.
- Core values serve as enduring, guiding principles that reflect what organizational members find intrinsically valuable. However, to have a positive influence on behavior, your group's collective values must be clearly identified, continually reinforced, and modeled by leaders.
- Create a powerful mission or purpose statement that reflects the ideals of your members while inspiring and promoting ethical behavior.
- Codes of ethics can play a vital role in improving an ethical climate. Your organization's ethical guidelines need to address the specific ethical dilemmas faced by members and have the backing of senior managers who consistently enforce them.

- Structure shapes behavior through the creation of authority relationships, delineation of lines of accountability, and the allocation of decision-making rights. Encourage employees to challenge orders when necessary, help them understand how their actions impact others, and empower them to resolve the dilemmas they face.

- Boards of directors sit atop the organizational structure. Boards are tasked with seeing that the organization's business is conducted in the best interests of the stockholders/supporters. Directors select top management and ensure that they (and the cultures they create) operate in an ethical manner. Effective boards maintain their independence from top management and take their duties seriously.

- To promote moral behavior, acknowledge ethical performance, reward desirable (not undesirable) activities, and make sure goals are reached through ethical means.

- Create reporting channels that members can use to report misbehavior and ask for information. Use a variety of communication channels to send ethics messages and encourage ethical reflection and feedback.

- Appoint ethics officers to oversee compliance and ethics programs. Ensure that they have the power and independence to carry out their duties.

- Monitor the organization's vocabulary to see if it reflects unhealthy attitudes and values. Use moral terminology even when making routine decisions, and avoid euphemisms, which hide the ethical implications of your choices.

- Create norms—widely accepted standards of behavior—that support, not undermine, your formal codes and policies.

- Analyze rituals to determine the behaviors, values, and priorities they promote. Modify those rites that poison the ethical climate.

- Tell and retell organizational stories that model desired behaviors, and identify worthy heroes. Reframe negative stories so they deliver a more positive moral message.

- Your attempts to change the ethical culture must be systematic, simultaneously addressing multiple components. Cultural elements should align with (support) one another and consistently demonstrate ethical values.

- Diagnosis should be the first step in any ethical change initiative. Conduct a risk assessment to identify potential dangers. Use an ethics audit to measure the relationship of cultural components and ethical behavior.

- Conduct an ethical climate analysis to determine how members perceive what is ethically correct behavior and how they believe the organization deals with ethical issues.

- As a leader, be actively engaged in creating, maintaining, and changing ethical culture through attention, your reaction to critical incidents, resource allocation, role modeling, rewards, and selection.

- Communicate positive moral values and standards to newcomers through recruitment materials, employment interviews, formal orientation programs, and socializing agents.

- Focus your ongoing ethics training on your organization's unique ethical problems, allow plenty of time for trainees to discuss issues, tap into the experiences of participants, and integrate discussion of ethics into the entire curriculum.

Application Projects

1. Brainstorm a list of ethically decoupled organizations and a list of ethically transformed organizations. How do these organizations differ?

2. List the core values of your organization. How well are they publicized? How well are they supported by the behavior of organizational leaders?

3. Evaluate the effectiveness of the mission statements in Ethics in Action 10.2, or, as an alternative, collect and evaluate your own examples. How well do these statements guide, inspire, and promote ethical behavior? What characteristics separate the effective statements from their ineffective counterparts?

4. Partner with an organization to develop a code of ethics for its members. Determine the common ethical issues faced by the group. Follow the guidelines presented in the chapter to create the code provisions. Get feedback from the organization on the usefulness and effectiveness of your document.

5. With your fellow employees, volunteers, or students, identify a list of norms in your organization. Compare these norms with the group's formal code of ethics, core values, and mission statement. Do the norms support the formal cultural components? Brainstorm strategies for bringing them into alignment. Report your findings to a significant organizational decision maker.

6. Do an in-depth analysis of an important organizational ritual. Identify its manifest and latent ethical functions. Write up your findings. As an alternative, analyze an important organizational story to determine the messages it communicates.

7. Complete Self-Assessment 10.1 to analyze your organization's ethical culture. Record your answers to each question. Conclude with an overall evaluation of the group's moral condition and suggestions for improvement. If you can, distribute the ethics audit questions to others, and discuss your findings as a group.

8. Analyze your socialization experience from an ethical vantage point. How well did the organization communicate its values and standards? Was ethics incorporated into the job interview? How well were you socialized based on your answers to Self-Assessment 10.2? What could be done to improve the socialization process?

9. Attend an ethical training program, and evaluate its effectiveness using the guidelines in the chapter.

10. Interview an organizational ethics officer, basing your questions on material presented in the chapter. Report the results of your conversation to the rest of the class.

11. Create a case study based on an organization's attempt to change its ethical culture. Outline what can be learned from this group's experience.

CASE STUDY 10.2

Leaving Goldman Sachs

Goldman Sachs executive Greg Smith caused a stir on Wall Street when he quit the investment firm in 2012. On the day he resigned, Smith detailed the reasons for his departure in an open letter published in the Op-Ed section of the *New York Times.* He said he could no longer work at the company because its culture had become "toxic."[1] He later wrote a book describing his experiences at Goldman Sachs.

Smith joined Goldman as an intern in 2001, shortly before the 9/11 attacks. The socialization process at the firm was demanding. Interns had to attend weekly open meetings that started at 6 am, not a minute later. Partners and vice-presidents would grill them on their knowledge of Wall Street, financial products, and the company's history. Those who tried to fake an answer often ended up in tears. As a sign of their low status, interns had to wear large orange identification tags and sit on folding stools next to traders and sales people. (There never seemed to be enough stools, causing a daily scramble for seating.) In order to be hired by the firm, interns had to secure "rabbis"—employees who would act as their sponsors. They also had to avoid offending executives while passing the Series 7 exams, which allowed them to trade. Only 40% of the incoming intern class was hired after the summer internship program ended. The lucky survivors joined a fast-paced, highly competitive culture where employees vied for bonuses and promotions through the sale of stocks, bonds, derivatives, foreign currency, and other financial products. They were richly rewarded for their efforts. A middle-level executive, for example, could make $250,000 a year.

The pressure to generate sales and profits was tempered by Goldman Sachs's strong emphasis on serving clients. "Our clients come first" is the first of the company's 14 guiding principles. "Culture carriers"—employees who would carry forth the values of the firm—were highly valued. If a Goldman Sachs trader believed that a transaction would be bad for a client, he or she would try to convince the buyer to purchase something else. Rabbis encouraged new hires to be truthful and accurate when conducting transactions.

Greg rose through the company ranks to become intern supervisor and later head of Goldman Sachs equity derivatives business in Europe, the Middle East, and Africa. During this period the market experienced the dot-com bust, when many technology firms went bankrupt, and the financial crisis of 2008–2009. Goldman Sachs survived the banking crash by accepting government funds as well as a $5 billion loan from Warren Buffett. These events helped trigger a cultural shift at Goldman Sachs. Many older leaders (those who played an important role in enforcing the firm's values) were replaced. Employees who could develop complex mathematical formulas for making financial trades—called "quants"—were promoted instead of culture carriers. The company began focusing on generating profits, not serving clients. Traders were encouraged to "hunt elephants" by pursuing only those trades that generated a $1 million or more in profit. On occasion the firm would bet against its clients, encouraging them to buy a stock or financial

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instrument it was trying to sell. Analysts used the term "muppets" to describe customers they thought were dumb or stupid. One company partner summarized the profits-first atmosphere this way: "If I had to choose between my reputation and my P&L, I choose my profit-and-loss. Because I can ultimately recover my reputation, but if I lose a lot of money, I can't recover that."[2]

Goldman Sachs stock sank 3.4% after Greg's letter appeared in the *New York Times*, wiping out $2.15 billion in value. (The firm made up most of the losses the next day.) CEO Lloyd Blankfein and company president Gary Cohn fired back at Smith. In a memo to employees, the executives said: "The assertions made by [Greg Smith] do not reflect our values, our culture and how the vast majority of people at Goldman Sachs think about the firm and the work it does on behalf of clients."[3] They pointed out that 89% percent of employees surveyed agreed that the firm supplied outstanding service. The London office (where Smith worked at the end of his career) was named as one of the best places to work in the United Kingdom. Blankfein and Cohn also claimed that Smith never aired his concerns through the company's ethics reporting system.

Discussion Probes

1. What signs of ethical trouble, if any, were already present at Goldman Sachs when Greg joined?

2. What messages did the socialization process at Goldman Sachs send to interns? Would you like to intern there?

3. Could the cultural shift at Goldman Sachs have been prevented? How?

4. Does Goldman Sachs have an ethical obligation to serve the needs of the clients, or should clients accept the fact that Goldman Sachs might put its own financial interests first?

5. Was it ethical for Greg Smith to blow the whistle on Goldman Sachs by submitting a letter to the *New York Times*? Why or why not?

6. Do the company CEO and president effectively cast doubt on Smith's description of a toxic culture at Goldman Sachs?

Notes

1. G. Smith (2012a, March 14).

2. G. Smith (2012b), p. 131.

3. We're committed to our clients. (2012, March 16).

CASE STUDY 10.3

Costco's Fish Story

Stories play a central role in the cultures of some of the world's most successful and ethical corporations. Medtronic, a medical technology manufacturer, throws an annual employee Christmas party and invites six patients and their physicians to share stories of how Medtronic products have helped them. At one gathering, a patient described how Medtronic's deep-brain stimulation device reversed 10 years of symptoms, calling it "literally a miracle." The company's CEO attributes much of the firm's success to the narratives told at these events, which create a family atmosphere while reinforcing the group's mission to serve others. Leaders at Southwest Airlines highlight the importance of customer service by telling the story of a gate agent who hopped on a flight to accompany an elderly passenger to ensure that he arrived safely. Employees at Southwest tell how the company decided not to furlough a single worker after the 9/11 attacks, when other airlines were laying off thousands.

Costco is another firm that makes strategic use of stories to support its corporate culture. One of the world's top ten retailers, Costco is a discount warehouse chain that sells everything from toilet paper (its top seller) to wine (more than any other single retailer) to flat screen televisions and diamond rings. Shopping at Costco has a "treasure hunt" feel because the company regularly rotates one fourth of its products. Cofounder Jim Senegal oversaw the development of a no-frills culture focused on delivering value to customers through low prices on high-quality items. Company warehouses feature cement floors with products stacked on pallets. Mark-ups are limited to 14% on non-Costco goods and 15% for its Kirkland signature products.

Senegal delighted in telling visitors the "salmon story" to highlight Costco's focus on raising quality while dropping prices. In 1987 the company opened its first meat department, and a team was assigned to create a low-cost, high-quality salmon filet. The first product sold for $5.99 a pound. The excess parts of the fish were then trimmed. While the quality went up, the price went down to $5.29 a pound. Still not satisfied, the team developed a skinless, boneless filet for $4.99 a pound. Finally, the group began buying farmed salmon in bulk to save money and did additional trimming to improve quality. Costco could have raised the price for the fish but did not.

The salmon story is enshrined in a wall display found in the lobby of corporate headquarters and the firm created a Salmon Award. This annual award recognizes outstanding employee performance. The award generates new salmon stories every time it is given out.

Ironically, the same fish that plays such an important role in Costco's culture is now bringing the company unwanted attention. Costco relies on farmed salmon to keep the price of its filets as low as possible. However, environmental groups call salmon farming "one of the most harmful aquaculture production systems."[1] The typical salmon farm consists of open-net cages in sheltered coastal bays where 500,000–750,000 fish are held

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in than area approximately the size of four football fields. Packed into tight spaces, the fish are susceptible to parasites and diseases that can spread to wild salmon. Sea lions get caught in the nets when they try to enter the pens and captive salmon escape to compete with their wild counterparts. Save the Salmon, the Coastal Alliance for Aquaculture Reform, and other groups are urging Costco, Safeway, Whole Foods, Kroger, Trader Joes and other chains to stop selling farmed salmon. Protestors have picketed Costco and other grocers in Canada, Scotland, England, and elsewhere.

So far Costco has resisted pressure to remove farmed salmon from its shelves (wild salmon is also sold at some outlets). If the firm decides in the future to discontinue the use of farmed salmon, customers will likely pay more. Company leaders may then have retire the salmon story.

Discussion Probes

1. What are your impressions of Costco? Do you shop there? Why?

2. What does the salmon story say about the culture and values of Costco?

3. Can you think of other companies that have their own "salmon stories"? What are these stories?

4. What does it take to create a powerful corporate story?

5. Should Costco stop buying farmed salmon even it means raising prices and lowering quality?

6. Should Costco modify or retire the salmon story and Salmon Award?

Note

1. Farmed and dangerous (2013). Additional sources for this section are Branch (1999); Clark (2013); S. Fisher (2007), pp. 22–23; Frey (2004); Marshall and Adamic (2010); Mills (2013); Weatherby (2003); Wold (2011).