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Developing and sustaining an ethical corporate culture: The core elements

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Abstract Of all the issues boards of directors, executives, and managers face, one could argue that unethical corporate activity is one of the most significant in terms of its potential negative impact and also one of the most difficult to properly address. This article argues that three key elements must exist if illegal or unethical activity within and on behalf of organizations is to be minimized through developing and sustaining an ethical corporate culture. The three elements include (1) the existence of a set of *core ethical values* infused throughout the organization in its policies, processes, and practices; (2) the establishment of a *formal ethics program*, including a code of ethics, ethics training, an ethics hotline, and an ethics officer; and (3) the continuous presence of *ethical leadership*—that is, an appropriate 'tone at the top' as reflected by the board of directors, senior executives, and managers. While each of these three elements is distinct, they also overlap, relate to, and reinforce each other. This article discusses each of the three key elements necessary to develop and maintain an ethical corporate culture.

1. Unethical corporate activity

It can be argued that of all the issues faced by boards of directors, executives, and managers, unethical corporate activity is one of the most significant in terms of its potential negative impact and one of the most difficult to properly address. The range of illegal and unethical activity taking place is extensive and includes corruption, bribery, receiving and giving gifts and entertainment, kickbacks, extortion, nepotism, favoritism, money laundering, improper use of insider information, use of intermediaries, conflicts of interest, fraud, aggressive accounting, discrimination, sexual harassment, workplace safety, consumer product safety, and environmental pollution (U.S. Sentencing Commission, 2010). Unfortunately, one does not have to look very far to see significant examples of crime and unethical activity within or on behalf of business organizations and the serious negative impacts such scandals have had on investors, employees, customers, competitors, the natural environment, and society (e.g., Enron, WorldCom, Tyco, Parmalat, Siemens, Madoff Investments, BP). This list does not include the more basic legal yet unethical

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practices by firms and their agents, including acts of dishonesty, disloyalty, disrespect, or promise breaking, all of which can also result in unnecessary harm to stakeholders. However, beyond the major scandals that are often the focus of media scrutiny, lawsuits or government prosecutions are the more difficult and challenging ethical dilemmas managers face. For example, consider the following firm-level ethical dilemmas with which many managers must wrestle:

- Should production be moved overseas, leading to worker layoffs?
- Should affirmative action policies be adhered to, leading to other qualified candidates being bypassed?
- Should consumer products be sold in third world countries with less stringent consumer protection laws when their sale would not be legally permitted in the firm's home country?

Or consider the following individual-level ethical dilemmas managers might face:

- Should I break confidentiality and indicate to a work colleague who is also a good friend that he/she is about to be laid off?
- Should I accept an expensive bottle of wine during the holiday season from a current supplier if the firm does not forbid this?
- Should I join my work colleagues when a potential client is being taken to an adult entertainment club?
- Should I report my supervisor who is acting in an abusive manner toward other employees and thereby risk losing my own job?

How can firms prevent significant unethical behavior while simultaneously providing proper guidance to managers and employees in how to address more challenging day-to-day ethical dilemmas? While a vast array of potential solutions have been presented, many theorists (e.g., Brass, Butterfield, & Skaggs, 1998) argue that the presence of an ethical corporate culture is a necessary, although insufficient, condition if the extent to which illegal or unethical activity is taking place is to be minimized. An ethical corporate culture not only helps avoid major illegal or unethical corporate scandals but also leads to more appropriate ethical behavior at all firm levels. This theoretical position is at least initially supported by empirical evidence. For example, the 2009 National Business Ethics Survey of 2,852 U.S. employees conducted by the Ethics Resource Center (2010) found that in stronger ethical cultures, far fewer employees feel pressure to commit misconduct (4% versus 15%), the rates of observed misconduct are much lower (39% versus 76%), employees who observe misconduct are more likely to report it (43% versus 28%), and those who report misconduct are less likely to experience retaliation (4% versus 24%). In reviewing the academic literature, Mcdonald (2009, p. 357) suggests: "The results highlight the important role that organisational culture plays in ethical decision making."

However, there are several difficulties with an approach focusing on developing an ethical corporate culture to help combat illegal or unethical activity. The initial challenge lies in understanding what exactly defines an ethical corporate culture. Before this can be done, however, one must start with defining the broader corporate culture concept found in the organizational theory literature. While several definitions exist, for the purposes of this article, *corporate culture* is simply considered a representation of the organization's shared assumptions, values, and beliefs. Building on this general definition, Treviño and Nelson (2011, p. 153) suggest that an *ethical corporate culture* represents a slice or subset of the organization's broader culture and is "maintained through a complex interplay [and alignment] of formal [i.e., policies, leadership, authority structures, reward systems, training programs] and informal organizational systems [i.e., peer behavior and ethical norms]." In terms of how an ethical corporate culture can lead to expected ethical behavior, employees can act in accordance with the firm's ethical norms either through a *socialization* process (i.e., employees feel they are expected to behave accordingly) or an *internalization* process (i.e., employees adopt the ethical norms as their own). The goal, then, is for firms to ensure that within their broader corporate culture of shared values and beliefs, a strong ethical corporate culture also exists rather than a weak culture. Only when this takes place will employees be more likely to conform to desired ethical norms.

A second difficulty lies in asking whether its existence—however defined—will actually make a difference with respect to *all* employees and managers. For the purposes of this article, this position is rejected as being clearly unrealistic as illegal and unethical activity will always continue, despite the existence of even an ideal ethical corporate culture. For example, there are many individuals in the fraud-prevention field who accept a 20—60—20 rule. Namely, 20% of a given workforce will always do the