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Citation for published version (APA):

Bailey, C., & Shantz, A. (2018). Building an Ethically Strong Organization. *MIT SLOAN MANAGEMENT REVIEW*. <https://sloanreview.mit.edu/article/creating-an-ethically-strong-organization/>

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Addressing daily micro-dilemmas creates an ethically strong organization

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Forthcoming: The Sloan Management Review

Pre-publication accepted version 22/12/2017

Acting ethically in business is not only legally and economically necessary, but also, most would agree, morally right. Corporate malpractices such as collusion, cheating, tax evasion, fraud or misrepresentation are increasingly being called out by regulators, governments, employees and consumers alike who are tired of being duped or misled, and of dealing with, or being employed by organizations whose values they do not share.

Yet, businesses, public sector organizations, and not-for-profits the world over keep on being caught engaging in unethical practices. Scandals such as German car manufacturer VW's cheating of the emissions testing regime that has affected 11 million vehicles, UK supermarket chain Tesco's overstatement of its profits by £263 million and, in Brazil, Petrobras's loss of \$2 billion in bribes and corporate theft have caused many to question the values and ethics that underpin the decision-making of corporate elites¹.

The conundrum is: why do organizational leaders keep on with these unethical practices, despite the clear moral and business imperatives to think and act ethically, and what can be done to change matters?

Although it has been argued that individuals have an innate tendency toward unethical behaviors through reasons of self interest², our research reveals that organizational ethics matter significantly to the vast majority of employees and managers, and that people have a strong impetus to work for an ethical employer whose values and principles are aligned with their own. This suggests that ethical employers are more likely to attract and retain ethical employees³. Moreover, research has also shown that there is a link between organizational ethics and firm performance outcomes⁴, so there is clearly a

¹ P. Simpson, "What price principles?" *Work*. 7 (2016): 46–53.

² T. Haugh, "The trouble with corporate compliance programs", *Sloan Management Review* 59 (2017): 55-62.

³ D.R. May, Y.K. Chang and R. Shao, "Does ethical membership matter? Moral identification and its organizational implications". *Journal of Applied Psychology* 100 (2015): 681-694.

O. Demirtas and A. Akdogan "The effect of ethical leadership behaviour on ethical climate, turnover intention, and affective commitment". *Journal of Business Ethics* 130 (2015): 59-67.

⁴ Y. Shin, S.Y. Sung, J.N. Choi and M.S. Kim, "Top management ethical leadership and firm performance: mediating role of ethical and procedural justice climate". *Journal of Business Ethics* 129 (2015): 43-57.

strong financial incentive for firms to behave ethically, which makes the ongoing ethical failures around the globe all the more surprising.

To uncover the reasons behind the persistent unethical conduct we are witnessing today, we asked employees to tell us about their experiences of both ethical and unethical practices on the part of their colleagues, line managers and senior executives⁵. What became apparent to us is that the ethical tone of an organization is the cumulative outcome of how organizational members address the daily ethical micro-dilemmas they face as they go about their work.

Ethical Micro-Dilemmas

To understand how the ethical tone of an organization is established, we need to take a step back and consider the way in which ethical tone is built not only top-down but also bottom-up through the manner in which both employees and line managers go about resolving the ethical micro-dilemmas that arise during the natural course of the working day. This ethical tone has the potential to nudge the organization towards either an increasingly ethical stance, or towards an increasingly unethical one. There are four types of micro-dilemmas that people typically face.

Micro-dilemma 1: how to reconcile employees' personal ethical codes with those of the organization?

The first micro-dilemma arises when employees observe a disconnect between their personal ethics and those of the wider organization.

There are four dimensions of personal ethical codes that underpin this.

First, people's personal ethics *matter a great deal* to them, they are part of their personal identity. For example, one manager said, 'I can't really see anything that would make me deliberately work against my moral or ethical principles, because that is a very strong driver for me'.

Second, people's ethics generally *do not vary across settings*, so, as one manager put it, 'my ethical principles are the same at home as they are at work'. Third, there is *a symbiotic relationship* between ethics in working life and ethics in home life, with the ethical climate at work influencing personal ethics, and vice versa. One manager noted, 'I think the organization's values have certainly shaped my own personal values'.

Finally, individuals have a deep-seated *need to experience a close match* between their own personal ethics and those prevailing in their work environment. Because of this need, when employees do experience a disconnect between the ethics they abide by at home and the ethics they feel they are required to enact at work, it generates feelings of discomfort and unease that they are driven to resolve, like any other form of cognitive dissonance⁶. For instance, one retail manager said of his organization's

⁵ M.E. Brown, L.K. Trevino and D.A. Harrison, "Ethical leadership: a social learning perspective for construct development and testing". *Organisational Behaviour and Human Decision Processes* 97, no. 2 (2005): 117–34.

⁶ L. Festinger, "A Theory of Cognitive Dissonance" (Stanford, CA: Stanford University Press, 1957).

priorities, 'This time last year, we were very much talking people, people, people. This year I'm talking about performance, performance, performance but I don't like it, I'm not comfortable'.

Ethical disconnect is a key driver of negative outcomes. At the extreme, a discrepancy between individual and corporate ethics is a major reason for employees quitting their jobs; for instance one manager told us, 'I've worked in businesses that I didn't stay in very long because the ethics and the culture, I didn't feel comfortable', a comment echoed by many others we spoke to.

Micro-dilemma 2: how to reconcile the conflicting needs of different stakeholder groups in an ethical way?

In any organization, there will be a range of stakeholders potentially affected by decisions that are made, including employees, suppliers, clients, senior managers, the local community, wider society and the environment⁷. Organizations will most probably have an explicitly stated approach for dealing with such dilemmas and resolving the tensions that arise between the interests of the various parties. This may or may not be the same as the implicit approach that employees witness being adopted in daily organizational life.

Although employees are pragmatic about the fact that 'there's always going to be a few anomalies', we found evidence of a discrepancy in many cases between the viewpoints of senior managers over how such dilemmas should be resolved, and those of employees. When we asked employees and their leaders to rank the order in which stakeholders 'matter' in important decisions, it was rare for a consensus to emerge. As one employee in the retail sector said, 'even though we've got a vision and we've got an ethical policy framework, I personally feel very strongly that [in practice] it's shareholder, company, colleague, in that order'.

In the context of a charity that provides support to their local community, one of the core dilemmas is how to handle large donations which are made alongside requests for the preferential care treatment of relatives. Scenarios such as this demand that managers weigh up the monetary worth of the donation against the charity's ethical values around integrity, fairness and transparency and equal access to services for all; 'sometimes, the choices we have to make are not overtly compromising but they can make things difficult, people asking for access to services when they're not entitled to them, people jumping the queue'.

Admittedly, it can be difficult to generalize about the relative weight that should be attached to a range of stakeholder groups since situations vary, and different departments within the same organization will likely be faced with different ethical priorities. However, each time an employee or a leader makes a decision that implicitly or explicitly favors one stakeholder group over another, this sends a message to employees about what really matters from an ethical perspective, and whose interests the organization is willing to sacrifice.

⁷ C. Frisch and M. Huppenbauer, "New insights into ethical leadership: a qualitative investigation of the experiences of executive ethical leaders", *Journal of Business Ethics* 123 (2014): 23-43.

Micro-dilemma 3: whether and how to challenge unethical behaviors.

When witnessing the unethical conduct of a colleague or superior, there is a decision to be made: do I take this further and, if so, how? And, if I do, what will be the consequences for me and for others? Employees and managers alike confront such dilemmas on a regular basis, whether it is colleagues witnessing relatively small ethical infractions on the part of their peers, teams of people suffering the effects of a bullying line manager, or unethical decisions made at a senior level that affect the entire organization.

In such circumstances, there is a range of possible responses open to employees, including:

- Staying silent and saying nothing
- Taking the individual aside and discussing the matter privately
- Calling the person out in front of others
- Reporting the matter to senior staff
- Reporting it anonymously via a whistle-blowing or anti-bullying and harassment scheme

At one extreme, employees we spoke to described times when they chose simply to stay silent. One employee in the retail sector told us about the time when bonuses were being awarded to everyone except the hourly paid workers on the front line; she said,

‘It did feel desperately uncomfortable, but in the end you either rise up as a whole population and say, “no, this isn’t right, none of us are taking bonuses”, or you become an outlier and a single person saying, “I don’t want my bonus, I’m going to give it to charity”, or you say nothing. I didn’t say anything.’

When employees choose to stay quiet, alternate viewpoints are silenced, levels of engagement and commitment are likely to diminish⁸, and observers note that failure to challenge is the norm.

However, calling out someone for unethical behaviour can be risky for the individual concerned, who may be fearful of the consequences. This dilemma is well illustrated by one of the junior police officers we spoke to:

‘If you and I were constables and I’d seen you behave in an unethical way and challenged you about it, that could cause bad feeling. But then if you and I went out and faced somebody going crazy with a knife, I’d need to know you’d got my back. It’s not like working in an office, you might be relying on that person to save your life.’

As this officer shows, the potential consequences of calling someone out for behaving unethically can be significant, and the decision over whether or not to challenge can depend on the nature of the infraction, the setting within which it takes place, the seniority and role of the people involved, and an evaluation of the potential consequences of challenging.

⁸ J. Pucic, “Do as I say (and do): ethical leadership through the eyes of lower ranks”, *Journal of Business Ethics* 129 (2015): 655-671.

Micro-dilemma 4: how to manage the trade-off between the ethical solution versus the expedient solution?

The fourth micro-dilemma faced by employees and managers is what to do when the ethical solution to a problem is not the same as the expedient one. Oftentimes, people told us about the conflicts experienced when resource constraints such as lack of time, people or finances meant that the effort of resolving situations by the most ethical means was not viable. As one manager put it:

‘I think our ethics as a business are very, very good. Where we get the frustration is when we want to do the right thing with our people, but actually the resource levels that we’re asked to work on make it impossible sometimes.’

In the context of the police, this meant that officers have to make choices about which crimes to investigate, leading to ‘a huge amount of strain and stress to officers’.

Similarly, pressures of work may mean that finding the time to be ethical is difficult; one manager in the government department said, ‘when you work really, really hard and things get stressed, you focus on the task rather than the individual’.

Fostering an ethically strong situation through distributed ethical leadership

Urgent calls for an increased emphasis on ethical leadership have come from organizations such as The World Economic Forum, which has said leaders should ‘never deviate from their true north, which is to say, strong vision based on authentic values’⁹. Senior leaders do have a key role to play in managing organizational ethics and setting the organization’s ethical tone. However, there is a belief on the part of the public and corporate leaders that all organizational ethical misbehavior can be ‘solved’ by identifying a senior leader who has acted immorally and then firing them. Recent research shows that the number of CEOs sacked for ethical misconduct has risen 36% in the last five years¹⁰, and the roster includes high-profile examples such as Yahoo CEO Scott Thompson, United CEO Jeff Smisek, and LendingClub founder Renaud Laplanche.

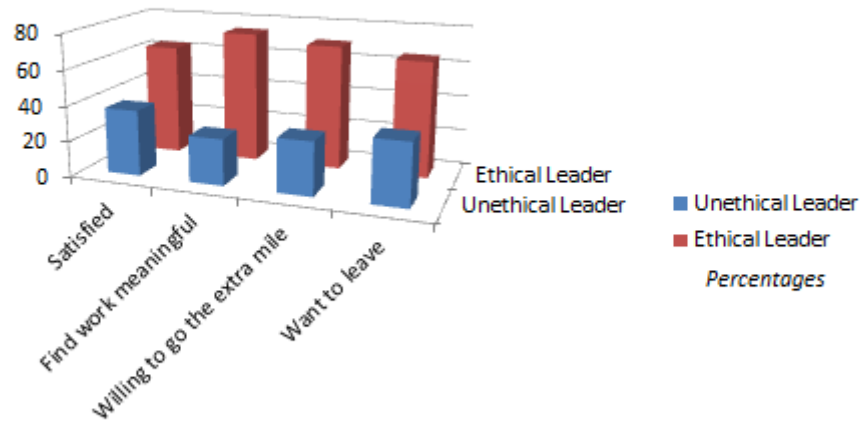
However, merely replacing an unethical executive may well be insufficient to bring about lasting change in employees’ behavior. This is because shared beliefs about acceptable conduct become woven deep into the fabric of organizational culture and are highly resistant to change. What organizations need to do is to foster *distributed ethical leadership* through the hierarchy, and also to create *an ethically strong situation* that outlives the influence of any one individual.

For example, our research shows that ethical leadership not just at senior levels, but throughout the hierarchy is important for positive employee attitudes and behaviors. Employees whose immediate line

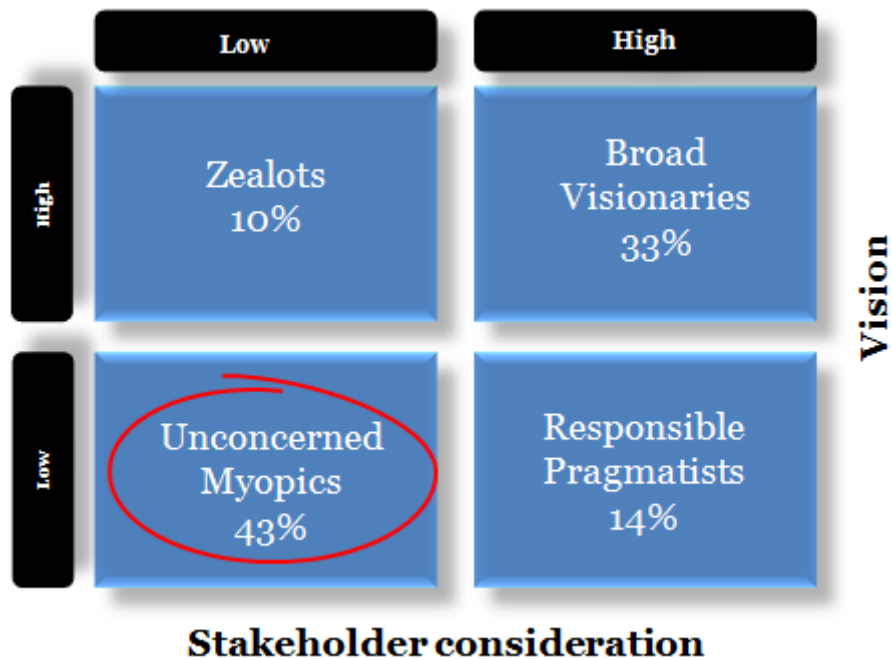
⁹ K. Schwab, “Five Leadership Priorities for 2017”, January 2, 2017, World Economic Forum <https://www.weforum.org/agenda/2017/01/five-leadershippriorities-for-2017>

¹⁰ J. McGregor, ‘More CEOs are getting forced out for ethics violations’. May 15, 2017, *Washington Post*. https://www.washingtonpost.com/news/on-leadership/wp/2017/05/15/more-ceos-are-getting-forced-out-for-ethics-violations/?utm_term=.2293eb67510a

manager is seen as an ethical leader are more satisfied with their work, more willing to go the extra mile, find their work more meaningful, and are less likely to quit:



It is to their immediate line manager or leader that most employees look in terms of understanding the ethical tone of the organization. In this context, it is worrying to note that our research found only 40% of employees believe their line manager behaves ethically, while one-third of employees believe they work in an 'Ethical Void', or an environment where their values do not fit and where their manager displays little concern for ethics.



When we look in more detail, we find that only one-third of employees believe they work for ‘Broad Visionaries’ or leaders who set a strong vision and demonstrate a real concern for a wide range of stakeholders. A minority, 14%, work for ‘Responsible Pragmatists’, or individuals who show concern for stakeholders but are unable to articulate an inspiring vision. Another small proportion, 10%, say they work for ‘Zealots’, in other words, leaders who have a strong vision, but demonstrate a narrow-minded focus and lack of concern for other stakeholders.

Most concerning, the largest group, 43%, say they work for ‘Unconcerned Myopics’, or leaders who not only lack vision, but also fail to take into consideration the needs of important stakeholders. Taken together, the implication of our findings is that, for many employees, the daily behavior they witness from their leaders and managers often fails to live up to the ethical standards that employees set for themselves, or would wish to see.

In circumstances such as these, it is difficult for organizations to foster an ethically strong situation. An ethically strong situation is defined as one in which people have a shared understanding of events, there is clear information about the consequences of behaving (un)ethically, and employees have the skills and incentives to do the ‘right’ thing. An ethically weak situation, on the other hand, is one in which employees respond idiosyncratically to events, where the appropriate ethical response is unclear, and where there are few incentives to behave ethically. In consequence, an ethically weak situation fosters an ethical tone where employees are more likely to cut corners, to take the easy way out rather than the ethical way out, and to keep a low profile rather than challenge instances of unethical practice.¹¹

¹¹ We draw here on the ideas of Mischel concerning weak vs strong situations: W. Mischel, “Personality and Assessment” (New York: Wiley, 1968).

There are six actions that organizations can take to foster an ethically strong situation and help create a setting that will likely generate positive ethical actions in the face of daily micro-dilemmas.

1. Acknowledge the ethical micro-dilemmas your employees are facing

All employees in all organizations will face ethical micro-dilemmas, but not all organizations recognize and articulate where their employees are likely to come up against their most challenging examples. Failure to acknowledge the ethical realities of organizational life drives employees to internalize their decision-making processes, and risks fostering an ethically weak situation.

For example, in one organization a leader admitted to us that the organization was not being open with its employees about their workloads and said, 'we are really struggling and we're not admitting that to people on the ground'.

In this case, there was an unspoken awareness among senior executives of the pressures that employees were under, but this was not articulated openly or shared with staff, thus circumventing the possibility for an authentic dialog or of developing solutions. Employees themselves could feel the pressures, but the lack of open discussion meant that they felt that senior leaders did not care.

Conversely, at the charity, openness and transparency were identified as underpinning the ethical climate:

'You know, I've worked for places where things are done behind closed doors and you don't really understand the reasons. I think here whatever initiatives are being run, it's done very openly. We don't make decisions in hiding, we make decisions in a very consultative way.'

By being honest with staff and explaining the reasons behind decisions that are made, the foundations are laid for a shared understanding of ethical micro-dilemmas and solutions.

2. Clarify the ethical trade-offs

The second step is to clarify explicitly how employees can manage ethical trade-offs between different stakeholder groups, and to empower employees to share and discuss their experiences. Most decisions will have repercussions for more than one set of stakeholders. In some cases, it will be possible to reach a decision that addresses the needs of all groups. However, in most instances trade-offs will be required that involve difficult decisions and weighing up the rights and needs of one set of stakeholders against those of others.

Where employees are uncertain how to manage these trade-offs, then inconsistent or unethical approaches can encroach into the organization. As one employee said, 'I think there are things that happen that perhaps if they had been explained better would be seen as ethical, but because the explanation isn't given, people don't view it as ethical'.

In the retail firm, inconsistent messages fostered an ethically weak situation. For example, on the one hand a faulty IT system that misled customers about the availability of goods for store collection was retained for months despite managers knowing that the system did not work properly yet, on the other hand, a product range that was found to be malfunctioning was immediately recalled.

This situation can be compounded when the organization has been through a series of mergers or takeovers that bring together a range of different and sometimes clashing ethical climates. Here, leaders have an especially significant role in establishing a consistent ethical framework and guidelines for employees to balance out stakeholder interests.

In the charity, an ethically strong situation was encouraged by explicitly acknowledging how core ethical dilemmas should be resolved. For instance, in one tendering situation a candidate firm sought out one of the charity's trustees and asked them to put in a good word for them; the decision was immediately made to rule this organization out of the process due to a misalignment of ethical values. Here, as well, the Chief Executive encouraged staff to go to him with their ethical dilemmas and to have an open discussion with him, thereby allowing ethics to emerge 'bottom-up' as well as 'top-down'.

In the police, officers were specifically told to treat all stakeholders in the same way; as one senior officer said, 'tomorrow's detainees or suspects could be today's victim, and today's victim could be tomorrow's missing person. Our job is to protect the public regardless of how we come in to contact with them.'

3. Ensure role-modelling from the C-suite down

People we spoke to all underscored the importance of role modelling ethical behaviors from the C-suite down. As one employee in the retail organization said:

'We've got to trust our senior managers and executives to want to do the right thing, and for them to demonstrate and role model those behaviors, and that is going to trickle through the business and employees are going to have similar views.'

Leaders have a vital sense-giving role to play in the area of ethics. Employees and leaders throughout the organization will observe how members of the C-suite handle ethical dilemmas, rather than simply what they say about ethics, and will go through a process of sense-making to distil the organization's real ethical priorities. This is then cascaded down through the hierarchy and replicated at each level; as one employee in the construction solutions business said, 'if your direct line manager isn't setting an example for you, it detracts from the message that the business is giving'.

Where this doesn't work well, for example when conflicting ethical signals are sent, then employees will struggle with sense-making, and there is the risk of filtering at the mid level. For example, one manager in the retail firm said, 'a lot of the time I end up kind of ignoring stuff that comes in from above because I can't keep constantly changing their [direct reports'] focus'.

In some instances, the ethical conduct of mid-level managers can compensate for mixed messages from the C-suite, slowing or even reversing the development of an ethically weak situation. In the retail

business, staff talked positively of the 'family atmosphere' and shared values within individual stores and regions that counteracted the dominance of 'cost control' messages from head office. However, the risk here is that pockets of both good and bad ethical practice can emerge depending on the individual line manager.

A much more reliable way to ensure an ethically strong situation is through role modelling from the top where, in the words of one employee in the government department, the person at the top 'talks the talk and walks the walk'.

4. Embed ethics in corporate programs

Ethically strong situations are developed in settings where there are clear, robust and enforceable policies at the organizational level concerning expected and enforced ethical behaviors and practices¹². This extends to leadership development programs, induction programs, bullying and harassment policies, whistle-blowing policies and codes of conduct. In the absence of formalized policies around ethics, efforts on the part of leaders to create and embed an ethically strong situation will likely founder. As one police officer said, the programs 'help people to understand why we need to behave, act, do things in a certain way and what are the consequences of not doing that as well'. Although corporate programs alone will not eliminate unethical practices¹³, their existence is essential as one plank within the organization's ethical armory.

For instance, the construction solutions firm had introduced a framework called 'What good looks like' to guide employees and explain how people are expected to relate to one another, and a formalized Code of Conduct. This is supported by regular communications such as newsletters and videos that include cautionary tales from other companies where people had been sent to prison for unethical conduct. Training programs focusing on ethics are compulsory for line managers, such as how to deal with anti-competition risks and health and safety. An online system is in place for logging any issues as they arise. The recruitment process includes a focus on matching applicants' ethical values against those of the business. Although employees sometimes feel that these processes slow down decision-making, they provide clarity and 'consistency, and people know what is expected of them'.

Employees in the care charity are frequently confronted with challenging ethical micro-dilemmas in their work caring for vulnerable elderly people, such as how to assess mental capacity or how to manage end of life care and determine levels of treatment and support. The charity fosters an ethically strong situation around these areas through training and development specifically focused on ethical dilemmas in care, regular communication of the organization's vision, purpose and values, and clear policies on approaches to care.

¹² S.A. Eisenbeiss, D. van Knippenberg and C.M. Fahrbach, "Doing well by doing good? Analyzing the relationship between CEO ethical leadership and firm performance", *Journal of Business Ethics* 128 (2015): 635-651.

¹³ T. Haugh, "The trouble with corporate compliance programs", *Sloan Management Review* 59 (2017): 55-62.

5. Empower individuals to handle ethical breaches

To foster an ethically strong situation, employees need to be empowered to handle ethical breaches in a positive manner as well as to have the capability to do so. In any organization, it is inevitable that breaches will arise whether through error, neglect or deliberate act.

In ethically strong situations, there is an emphasis both on avoiding breaches arising in the first place, and on dealing with them when they do. In particular, in the words of one manager at the construction services firm, there is recognition that 'if people know what's important to you at a little issue level, they will generally make the right decisions on the big issues'.

Conversely, in ethically weak situations, 'challenging people's behaviors is not the norm'. This can arise either because employees fear some kind of retribution, because they do not feel any action will be taken, or because they do not see others around them raising ethical questions.

In the government department, one employee described a time when she had chosen to publicly rebuke a colleague:

'There was a person who made quite a negative remark that was racially driven, and when I immediately challenged it in an open plan office, I almost felt as if I was in the wrong to do it. I felt really embarrassed about it.'

Here, the employee and most likely those witnessing the interaction, learned that the culture does not favour those who call out unethical talk. Conversely, in the construction solutions business, an employee was able to publicly challenge a colleague for the use of sexist language, leading the perpetrator to apologise immediately, sending a positive message to others about how to handle such situations.

Some forms of ethical breach are more difficult than others to challenge; in many cases, staff may be unwilling to challenge upwards. As one person said, 'the more senior the person, the quieter the challenge'. Nevertheless, in organizations that foster an ethically strong situation, employees at all levels feel empowered and often obliged to follow ethical procedure. For example, in the construction solutions firm, employees are required to challenge ethical breaches that involve health and safety issues. One manager said that the culture around this is so strong that 'in extreme circumstances, people have lost their jobs because they haven't followed through on what really is their duty to either challenge it there and then, or report it later to make sure remedial action can be put in place'. The empowerment of employees in the face of ethical breaches is closely associated with idea that when followers engage actively in the situation, then the ethical leadership provided in the organization will be more powerful.¹⁴

¹⁴ R. Steinbauer, R.W. Renn, R.R. Taylor and P.K. Njoroge, "Ethical leadership and followers' moral judgment: the role of followers' perceived accountability and self-leadership", *Journal of Business Ethics* 120 (2014): 381-392.

6. Identify a transcendent ethical cause that employees can get behind

Finally, ethically strong situations are characterized by the presence of a transcendent cause that unites the organization behind an ethical vision and set of values that go beyond a self-interested focus on the organization itself. As one employee said, 'it's the vision that brings you back to tomorrow'. In the case of the charity, the emphasis is on providing care and support for the community; for the police, it is about keeping the community safe from harm, and for the construction solutions firm it is about creating a sustainable built environment.

These over-arching visions provide a framework within which the resolution of ethical micro-dilemmas can be understood. So, in the construction services firm, sustainability translates into sustainable approaches to doing business that protect the environment and local communities, as well as safeguarding employees. Within this context, employee health and safety become paramount, alongside working closely with the communities where activities such as quarrying that might be disruptive for local residents are taking place.

Having a clearly-specified statement of vision helps support and nurture this ethically strong situation, such as the widely shared 'Plan on a Page' used in the police force that outlines the organization's policing priorities and ways of working.

In ethically weak situations, there is lack of clarity around this over-arching vision due, for example, to frequent changes of vision or the existence of multiple visions across the organization. Alternatively, when the vision is divorced from any consideration of ethics, or when 'the why' is missing, then the opportunity to create this framework is lost and an ethically weak situation is created.

Conclusions

Organizations are under more pressure than ever to ensure they are ethically compliant and play a central role in developing a society where decisions take account of the needs of a range of stakeholders as well as the wider environment. Recent evidence would suggest that organizations continue to struggle to attain these goals. However, rather than simply seeking to impose ethics top-down, organizations should consider the ethical micro-dilemmas faced by employees and leaders as they go about their working day, and put in place the building blocks that will foster an ethically strong situation. This implies taking a holistic view of ethics as it relates to all employees in their day-to-day jobs, and being willing to take regular ethical temperature checks to ensure the continued relevance and enactment of ethical priorities.

About the research

The research on which this article is based was funded by the UK's Chartered Institute for Personnel and Development. We first carried out a detailed analysis of prior research on ethical leadership and ethical decision-making to inform the design of our study. We then conducted in-depth case studies in five organizations; a central government department, a nationwide retailer, a charity in the care sector, a police force, and a construction solutions firm.

In four of these, we issued a questionnaire survey to a sample of employees and matched these to surveys completed by their line managers. We also conducted face-to-face interviews and held focus groups as well as analyzing company documentation, such as HR policies, mission statements, vision and values. In the construction solutions firm, we held interviews and focus groups and analyzed policy documents. In all, we gathered surveys from 1,033 employees and their 524 line managers, and we conducted 46 interviews and 16 focus groups involving a total of 79 participants. In addition to these, we surveyed a representative sample of the UK's working population totaling 1,319 responses.