

## Characteristics of Ethical Business Cultures

Alexandre A. Ardichvili

University of Minnesota and Center for Ethical Business Cultures

Douglas J. Jondle and James A. Mitchell

Center for Ethical Business Cultures, Minneapolis, Minnesota

*The purpose of this study was to identify general characteristics attributed to ethical business cultures by executives from a variety of industries. Our research identified five clusters of characteristics: Mission- and Values-Driven, Stakeholder Balance, Leadership Effectiveness, Process Integrity and Long-term Perspective. We propose that these characteristics can be used as a foundation of a comprehensive model that can be engaged to influence operational practices in creating and sustaining an ethical business culture.*

Keywords: Ethics, Organizational Culture, Leadership

The discussion of complex issues, associated with ethical or unethical behavior in business organizations, has become prominent in human resource development (HRD) literature in recent years. Hatcher and Aragon (2000a; 2000b) have provided a compelling rationale for development of standards on ethics and integrity for HRD research and practice. This initial discussion was followed by a special issue of *Advances in Developing Human Resources*, devoted to an in-depth analysis of theoretical and practical challenges of developing such standards, and the reporting of empirical studies and/or practical work related to the implementation of ethical HRD practices (Hatcher & Aragon, 2001). More recently, several articles in AHRD journals have reported results of empirical research or provided theoretical frameworks, related to the study of ethical behaviors in various segments of HRD work. McDonald and Hite (2005) have discussed ethical issues in mentoring and the role of HRD; and Douglas (2004) has conducted empirical case study-based research to identify ethics challenges, associated with attempts to create shifts in values and behaviors in organizations. Russ-Eft (2003) pointed out the scarcity of empirical studies on factors leading to ethical or unethical behavior in business organizations. Furthermore, according to Russ-Eft, HRD scholars need to concentrate on researching the role of learning and development in creating ethical business cultures, and the role and effectiveness of HRD interventions aimed at developing ethical cultures.

Though the objective of this study is to identify components of ethical business culture, empirical research, reported in business ethics, organizational psychology and management literature, suggests that ethical or unethical behavior in organizations is a function of both individual characteristics and contextual factors (Meyers, 2004). Among these contextual factors, organizational culture is considered to be one of the most important influences (Trevino, 1986; Cohen, 1993; Meyers, 2004). In recent years, a number of research studies have attempted to link various attributes of organizational cultures to ethical behavior (Frederick, 1995; Trevino & Nelson, 2004). However, to our knowledge, none of the published studies propose comprehensive models of characteristics of ethical corporate cultures. Therefore, the goal of the reported study was to identify characteristics attributed to ethical business cultures by business practitioners. In this paper, we first briefly summarize the results of our review of literature on ethical corporate cultures and formulate the research question. Second, the study design, methodology, and sample are explained. Next, we present and discuss the study findings, including the list of attributes of ethical corporate cultures. Finally, implications for further research and HRD practice are discussed. Broadly defined, ethics is the study of human behavior viewed through a set of distinctive values and rules as it pertains to moral right and wrong (The Internet Encyclopedia of Philosophy, 2007). In anthropological literature, culture is defined as accepted behavioral standards within the confines of a specified group as guided by a pattern of shared learned beliefs, traditions and principles (Bolman & Deal, 1997; Trevino, 1990b). Schein defines organizational culture as learned responses where “basic assumptions and beliefs that are shared by members of an organization... define in a basic “taken-for-granted” fashion an organization’s view of itself and its environment” (1985, pp. 5-6). For the purposes of this paper, ethical business culture encompasses for-profit organizations comprised of individuals working reciprocally with internal and external stakeholders. Though the objective of this study is to identify components of ethical business culture, from a

Copyright © 2008 Alexandre A. Ardichvili, Douglas J. Jondle, & James A. Mitchell

holistic perspective an ethical business culture fosters an organizational environment guided by shared values and beliefs (Trevino, 1990b). Furthermore, it is an environment where employees are not only expected to discern right from wrong, a basic minimum, but more importantly are expected to go beyond the minimum to explore and implement ethical decisions when all choices seem right.

Organizational cultures are complex combinations of formal and informal systems, processes, and interactions (Cohen, 1993). Formal organizational culture components are comprised of leadership, structure, policies, reward systems, socialization mechanisms and decision processes among other things. Informal culture components include implicit behavioral norms, role models, rituals, historical anecdotes and language (Trevino, 1990a; Cohen, 1993; Frederick, 1995; Schein, 2004; Trevino & Nelson, 2004). Organizations possessing ethical cultures create and maintain a shared pattern of values, customs, practices and expectations which dominate normative behavior in the organization (Trevino, 1990a).

Leadership is often mentioned as one of the most important elements of an organization's ethical culture (Trevino, 1990a; Brown & Trevino, 2006). Leaders who are perceived as being able to create and support an ethical culture in their organizations are those who represent, communicate, and role model high ethical standards (Brown et al., 2005), emphasize attention to goals other than economic, engage in "ethics talk" (Bird & Waters, 1989) and maintain a long-term view of relationships within and outside the organization. These top managers create and maintain an ethical culture by consistently behaving in an ethical fashion and encouraging others to behave in such a manner as well.

An ethical culture is associated with a structure that provides for equally distributed authority and shared accountability. It also has policies such as an ethical code of conduct that is clear, well communicated, is specific about expected procedures and practices, thoroughly understood, and enforced (Trevino et al., 1999). In addition, incentive systems are deliberately and clearly tied to behaving in concert with the code of ethics and accomplishment of non-economic goals in addition to economic outcomes (Trevino & Weaver, 2001). The socialization process of an organization with an ethical culture reinforces the practice of the values in a mission statement on a daily basis, so behavior is focused on issues of health and safety of employees, customer and community responsiveness, and fairness. In fact, employee perceptions of fairness or justice in an organization have been found to have central importance in creating an ethical culture (Trevino & Weaver, 2001). In addition, the decision-making processes in an ethical culture are designed to consider the ethical ramifications of business decisions instead of cost-benefit analyses alone.

The informal elements of a cultural system are less tangible aspects of organizational behavior. Such aspects include norms for behavior that are consistent with the ethical standards or the code of conduct, mission, and decision-making processes (Trevino & Brown, 2004). Consistent role modeling of such behavior forms the basis for a strong culture where everyone understands what is appropriate for the company. Other elements of the informal culture include the communication and belief in heroes and role models, along with myths and stories about how ethical standards of the organization have been upheld and revered by members (Trevino, 1990a). Such heroes and stories transcend the formal organizational culture and inspire others to behave in an ethical fashion. Organizational rituals also help to bolster this informal culture by sustaining the ethical values of the members over time. Finally, the language used by organizational members plays a crucial role in shaping behavior in the informal ethical culture. Use of moral or ethics "talk" to address problem-solving and decision-making situations creates an awareness of the ethical dimension of such processes. Ethical cultures have leaders and members who engage in ethics talk regularly in pursuit of organizational activities.

In summary, various research studies have found that ethical cultures are based on alignment between formal structures, processes, and policies, consistent ethical behavior of top leadership, and informal recognition of heroes, stories, rituals, and language that inspire organizational members to behave in a manner consistent with high ethical standards that have been set by executive leadership. However, the above mentioned studies were exploring only one or two dimensions of ethical organizational cultures (e.g., decision making, or leadership), and none of the studies attempted to create a comprehensive list of attributes of ethical cultures, based on the perceptions of business practitioners and/or executives. Therefore, the main research question driving the present study is: What are, as perceived by study participants, the most important characteristics of ethical business cultures?

## **Research Design**

This study was designed based on the grounded theory approach (Creswell, 1998). Grounded theory studies are focused on discovering a theory or a framework, describing or explaining a phenomenon under investigation, by analyzing data collected via field investigations. In grounded theory approach, researchers are not making an attempt to develop a set of testable hypotheses or propositions. Instead, only a general question about the phenomenon is formulated with a goal of leaving sufficient space for emergence of patterns, which could be used in formulating a new explanation of the phenomenon (Grbich, 2007). While grounded theory provides a general framework for designing studies, specific data collection and analysis methods can vary depending on preferences and expertise of individual researchers.

In this particular study, data collection was based on qualitative key informant interview method, proposed by Kumar et al. (1993), and the data analysis was based on qualitative data clustering method, developed by Miles and Huberman (1994). According to Kumar et al. (1993), key informant interviews are used when the researchers intend to obtain the data not from a random sample, but from a purposefully selected sample of individuals, who are likely to possess the most relevant information due to their key positions, experience, or expertise in industries or organizations of interest to the researcher. For the purposes of this study, the key informants were defined as top-level business executives, who were likely to have in-depth knowledge of practices (including ethics-related practices) of a variety of business organizations. A number of prominent academics, specializing in business ethics research, were included in the key informant group. The initial group of key informants for the study was nominated by members of the Board of Directors of the Center for Ethical Business Cultures. Subsequent nominations were obtained through snowballing technique, when study participants were asked to provide additional names of qualified individuals. In addition, some interviews were conducted at a national business ethics conference by one of the researchers and several associates of the CEBC.

Overall, 67 individuals participated in the study. They included 54 business executives, representing a wide range of industries and 13 academics (See Table 1 for details).

Table 1. *Industry Affiliation of Study Participants*

Consulting & information services	5
Energy sector	7
Finance and Insurance	18
Health sector	2
Law firms	3
Manufacturing	8
Non-profits, foundations, churches	6
Retail	5
Academia	13

Participants were asked to think about business organizations they would classify as having exemplary ethical business practices. Then participants were asked to generate a list of statements descriptive of these organizations' ethical practices and behaviors. Overall, participants nominated 86 companies from nine industry sectors (see Table 2), and generated 389 descriptive statements.

Table 2. *Nominated Companies by Industry Sectors*

Basic Materials and Commodity	5
Conglomerates	2
Consumer Goods	18
Financial Services	12
Health Care	6
Manufacturing and Technology	18
Service and Retail	27
Transportation	4
Utilities	1

Data analysis included clustering of the 389 statements with a goal of generating a short list of major clusters and representative statements under each cluster. As suggested by Miles and Huberman (1994), "Clustering is a tactic that can be applied at many levels to qualitative data: at the level of events or acts, of individual actors, of

processes... In all instances, we are trying to understand a phenomenon better by grouping and then conceptualizing objects that have similar patterns or characteristics.” (p. 249). In addition to using specific suggestions for clustering, provided by Miles and Huberman, the researchers utilized a modified Delphi method to coordinate their work and to come up with a final list of clusters and statements. First, each of the three researchers worked independently and developed their own clusters and representative statements. Next, they exchanged their lists, discussed the lists and rationale for inclusion of individual items and, based on this review and discussion each developed a next iteration of clusters/lists. This process was repeated three times.

## Results

The final list of clusters and statements, associated with each of the clusters, is presented in Table 3. The five clusters that have emerged are: Mission- and Value-Driven, Stakeholder Balance, Leadership Effectiveness, Process Integrity, and Long-Term Perspective. Each cluster is represented by five to seven descriptive statements. Many of these statements are taken verbatim from interviews with study participants. Others are a result of re-wording or combining statements made by different participants, but which had essentially similar meaning.

Table 3. *Characteristics of Ethical Organizational Cultures: Clusters and Statements*

---

### Mission- and Values- Driven

- “Clarity of mission and values, reflected in ethical guidelines and behavior”
- “Institutionalizes ethical values”
- “Build relationships of trust and respect”
- “Strong culture that actively eliminates people who don’t share the values”
- “Corporate values are sustained over long periods of time”

### Stakeholders Balance

- “Balance all stakeholders (e.g., customers, employees, owners and community) in all their decision-making, consistently”
- “Deal with all stakeholders on a consistently ethical and value-oriented basis”
- “Good balance of customer value and profit”
- “Giving back to the community in which the company does business”
- “Work to be a good corporate citizen in a global economy”
- “Respectful treatment and fair compensation for employees at all levels”

### Leadership Effectiveness

- “Ethical culture starts at the top and is conveyed by example”
- “Senior management demands ethical conduct at every level of the company”
- “CEO and senior management live their lives with great personal integrity”
- “When ethical issues arise, CEO does not “shoot the messenger”, but gathers facts and takes action”
- “Do what they say they’re going to do”

### Process Integrity

- “Dedication to Quality and Fairness in its people, processes and products”
- “Invest in ongoing ethics training and communication throughout the organization”
- “Values are reinforced in performance appraisals and promotions”
- “Values are reinforced in every-day execution”
- “Excellent corporate governance processes, supported by Board quality and independence”
- “Noble mission is internalized in company processes and behavior”
- “Transparent decision-making, by the people closest to the question”

### Long-term Perspective

- “Place mission above profit, and long-term over short-term”
  - “Acting in the best interests of customers, over the longer term”
  - “Board takes long view in managing shareholder value”
  - “Connect environmental sustainability, social responsibility and profit”
  - “CEO says he’s building an institution that he hopes will be here in 50 years”
-

## Discussion and Recommendations for Practice

The purpose of this study was to identify general characteristics attributed to ethical organizational cultures. Our research identified five clusters of characteristics that infer a comprehensive model; a model that can be engaged to influence operational practices in creating and sustaining an “organizational *culture* that encourages ethical conduct and a commitment to compliance with the law” (United States Sentencing Commission, 2004). In our opinion, a business culture with these characteristics will far exceed the minimal baseline requirements of the law. The five characteristics of the model identified above are: Mission & Values Driven, Stakeholder Balance, Leadership Effectiveness, Process Integrity and Long-term Perspective. The accompanying descriptive statements binds and links the model together, adds clarity and resilience to its meaning and creates actionable guidance in its application. Based on the study results the keystone of the model is the characteristic **Mission- & Values- Driven**. It represents the lifeblood of the organization. For an organization to both survive and thrive, mission and values must be an integral component of an organization’s strategic focus. They must be aligned to foster a high performance culture and flow freely and systemically throughout the organization to become the genesis of operational norms (i.e. codes of conduct and ethics) that drive desired behavior.



Figure 1. Five clusters of characteristics of ethical business cultures.

Our research demonstrates that respondents place significant importance in the concept of driven behavior where “clarity of mission and values, reflected in ethical guidelines and behavior” is driven by an organization that “institutionalizes ethical values” and “build[s] relationships of trust and respect.” In a corporate culture, where core business functions are aligned with organizational processes, an environment is nurtured “that actively eliminates people who don’t share the values” and sustainability over “long periods of time.” This implies an existence of mechanisms that select for fitness between organizational values and individual values, a form of natural selection, which gleans deleterious behavior from the ethical organization.

Repeatability within the dataset of the suggestion of a relationship between ethical culture and the long-term led to identifying the *Long-term Perspective* as a separate foundational characteristic of ethical organizational culture. Responses categorized by this characteristic brought into sharp relief the question, ‘what is the purpose of business?’ Is it to maximize shareholder value or is it the responsibility of business to balance the need of various stakeholders? A typical response elicited was “[placing] mission above profit, and long-term over short-term.” What was of particular interest in responses categorizing this characteristic was the consistency of responses linked to *Stakeholder Balance* and *Leadership Effectiveness*. The linkage implies model congruency and its iterative cohesiveness between characteristics.

*Stakeholder Balance* and long-term concerns were addressed by “acting in the best interests of customers” and taking the “long view in managing shareholder value.” Respondents recognized that, because employees are the ones who deliver service to customers, all employees need to receive “respectful treatment and fair compensation.” Respondents also expressed concern for the environment and the desired role and responsibility of organizations to its safeguard. They believe organizations must “connect environmental sustainability, social

*responsibility and profit.*” Linkage with *Leadership Effectiveness* was demonstrated by responses focused on survivability and longevity of the organization (i.e. the “*CEO says he’s building an institution that he hopes will be here in 50 years*”). Respondents felt the responsibility of its leadership was to establish a strategy focused on consistent growth over the long-term and not be influenced by short-term growth and gains.

In stakeholder theory, business and business managers have a fiduciary responsibility to various stakeholder groups who, in themselves, have a vested interest in the success of the organization (Freeman, 1994). The countervailing theory espoused by Milton Friedman is stockholder centric where the “one and only one responsibility of business [and corporate executives] is to increase its profits” (Friedman, 1970). The stockholders, or owners, are the risk takers. Therefore, they alone are entitled to benefit from the returns. Respondents in general did not agree with this perspective on profit distribution. They consistently referred to the responsibility an organization has to its numerous stakeholders and their interests in “*respectful treatment and fair compensation.*” Thus, *Stakeholder Balance* was identified as a key characteristic of an ethical culture.

The term *Stakeholder Balance* suggests a tension exists between multiple stakeholders. Focusing too long and too much on any one stakeholder has the potential to create an environment of distortion and imbalance that can lead to ethical lapses. The model does not suggest that the tensions between stakeholders will disappear all together for the ethical organization. It does, however, create a forum for discussion and consideration of various stakeholder groups of an organization to work towards maintaining a “*balance [of] all stakeholders (e.g. customers, employees, owners and community) in all [its] decision-making*” and to “*deal with all stakeholders on a consistently ethical and value-oriented basis.*” In addition, an underlining theme voiced by respondents was a redefining of the purpose of business. That is, the purpose of business is not to just make money. Rather, it is to provide a “*good balance of customer value and profit*” and “*giving back to the community in which the company does business.*” Furthermore, respondents expanded the definition of community to include the global community. The expressed belief was an organization must “*work to be a good corporate citizen in a global economy.*”

Effective organizations have effective leaders. In an ethical business organization effective leaders “talk the talk” and “walk the walk.” In describing *Leadership Effectiveness*, the overarching theme was that “*ethical culture starts at the top and is conveyed by example,*” the “*CEO and senior management live their lives with great personal integrity*” and they “*do what they say they’re going to do.*” Leadership, most notably senior management, must embody the organization’s values in their own behavior and must articulate those values in a way that is compelling for employees and all other stakeholders. Ethical organizational culture is a nonstarter if senior management refuses to engage and to function as role models for the rest of the organization. Another critical aspect of leadership in an ethical culture is the issue of retaliation. Respondents expressed a belief that an ethical culture is “*when ethical issues arise, [the] CEO does not ‘shoot the messenger’, but gathers facts and takes action.*” However, building and sustaining an ethical culture is also a two-way street. It depends on “*senior management [demanding] ethical conduct at every level of the [organization].*” It must permeate throughout all aspects of the business from top management to the frontline employee and throughout all functional systems of the firm.

The characteristic identified as *Process Integrity* was described as internalizing the company’s mission “*in company processes and behavior.*” It includes the key functional units of the business, e.g. recruiting, hiring, firing, evaluating, compensating, promoting and communicating. Numerous challenges exist including establishing desired behavior standards, aligning the systems to encourage behavior and monitoring behavior. A key theme emphasized by the data was the importance of the company’s values reinforced in “*performance appraisals and promotions*” and “*every-day execution.*” This focused the attention on the necessity for alignment of processes to mediate confusion and the need for “*transparent decision-making by the people closest to the [issue].*” Specific attention was paid to the “*dedication to quality and fairness in its people, processes and products*” and ongoing investment in “*ethics, training and communication throughout the organizations.*” Beyond management functional areas, the data emphasized “*excellent corporate governance processes, supported by Board quality and independence.*” This indicates a heightened awareness amongst the respondents to the importance of governance and its role and responsibilities in fostering ethical business cultures.

## **Implications for HRD**

The above discussion of study findings suggests that there are multiple opportunities for HRD to play a key role in facilitating the creation of ethical business cultures. First, the importance of training was highlighted a number of times, especially in relation to ensuring process integrity and leadership effectiveness, and communicating ethical organizational values. Second, the stated need for alignment between ethical values, core business functions, leadership, and organizational processes implies that creation of an ethical culture will require significant

participation of organization development professionals. Third, we believe that HRD is uniquely positioned to provide a vital link between various organizational functional areas and should be able to facilitate the ethics-related dialog between various internal and external stakeholder groups of a corporation.

## Future Research

The reported findings are based on a limited in size sample of respondents, identified through a convenience sampling procedure. Therefore, to provide recommendations applicable to a wide variety of businesses, the logical next step would be to develop a survey instrument that can be used in a large-scale quantitative study. The purpose of this next stage would be to validate the list of characteristics of ethical business cultures and to confirm validity of five identified clusters. The study would involve a statistically representative sample of business executives and managers from a cross-section of industries.

## References

- Bird, F., & Waters, J. (1989). The moral muteness of managers. *California Management Review*, 32(1), 73-88.
- Bolman, L. G., & Deal, T. (1997). *Reframing organizations: Artistry, choice and leadership* (2<sup>nd</sup> Ed.). San Francisco: Jossey-Bass.
- Brown, M., & Trevino, L. (2006). Ethical leadership: A review and future directions. *The Leadership Quarterly*, 17(6), 595-616.
- Brown, M., Trevino, L., & Harrison, D. (2005). Ethical leadership: A social learning perspective for construct development and testing. *Organizational Behavior and Human Decision Processes*, 97(2), 117-134.
- Cohen, D. (1993). Creating and maintaining ethical work climates: A in the workplace and implications for managing change. *Business Ethics Quarterly*, 3(4), 343-358.
- Creswell, J. (1998). *Qualitative inquiry and research design: Choosing among five traditions*. Thousand Oaks, CA: Sage Publications, Inc.
- Douglas, D. (2004). Ethical challenges of an increasingly diverse workforce: The paradox of change. *Human Resource Development International*, 7(2), 197-210.
- Frederick, W. C. (1995). *Values, nature, and culture in the American corporation*. New York: Oxford University Press.
- Freeman, R. E. (1994). The politics of stakeholder theory: Some future directions. *Business Ethics Quarterly*, 4(4), 409-421.
- Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, September 13, 1970.
- Grbich, C. (2007). *Qualitative data analysis: An introduction*. Thousand Oaks, CA: Sage Publications, Inc.
- Hatcher, T., & Aragon, S. (2000a). Rationale for and development of a standard on ethics and integrity for international HRD research and practice. *Human Resource Development International*, 3(2), 207-219.
- Hatcher, T., & Aragon, S. (2000b). A code of ethics and integrity for HRD research and practice. *Human Resource Development Quarterly*, 11(2), 179-185.
- Hatcher, T., & Aragon, S. (2001). Academy of Human Resource Development standards on ethics and integrity. *Advances in Developing Human Resources*, 3(1).
- Kumar, N. Anderson, J., & Stern, L. (1993). Conducting interorganizational research using key informants. *Academy of Management Journal*, 36(6), 1633-1641.
- McDonald, K. S., & Hite, L. (2005). Ethical issues in mentoring: The role of HRD. *Advances in Developing Human Resources*, 7(4), 569-582.
- Meyers, C. (2004). Institutional culture and individual behavior: Creating an ethical environment. *Science and Engineering Ethics*, 10(2), 269-276.
- Russ-Eft, D. (2003). Corporate ethics: Learning and performance problem for leaders? *Human Resource Development Quarterly*, 14(1), 1-3.
- Schein, E. H. (1985). *Organizational culture and leadership*. San Francisco: Jossey-Bass.
- Schein, E. H. (2004). *Organizational culture and leadership* (3<sup>rd</sup> Ed.). San Francisco: Jossey-Bass.
- The Internet Encyclopedia of Philosophy. [www.iep.utm.edu/e/ethics.htm](http://www.iep.utm.edu/e/ethics.htm). Accessed on 11/12/2007.
- Trevino, L. (1986). Ethical decision making in organizations: A person-situation interactionist model. *Academy of Management Review*, 11(3), 601-617.
- Trevino, L. (1990a). A cultural perspective on changing organizational ethics. In R. Woodman & W. Passmore (Eds.), *Research in Organizational Change and Development* (pp. 195-230). Greenwich, CT: Jai Press.

- Trevino, L. K. (1990b). Developing and changing organizational ethics: A cultural approach. *Research in Organizational Change and Development*, 4, 195-230.
- Trevino, L., & Brown, M. (2004). Managing to be ethical: Debunking five business ethics myths. *Academy of Management Executive*, 18(2), 69-83.
- Trevino, L., & Nelson, K. (2004). *Managing business ethics: Straight talk about how to do it right*. New York: Wiley.
- Trevino, L., & Weaver, G. R. (2001). The role of human resources in ethics/compliance management: A fairness perspective. *HRM Review*, 11(1), 113-134.
- Trevino, L., Weaver, G. R., Gibson, D., & Toffler, B. (1999). Managing ethics and legal compliance: What works and what hurts. *California Management Review*, 41(2), 131-150.
- United States Sentencing Commission. (2004). *Federal sentencing guideline for organizations*. §8B2.1. (a)(2).