

## Executive Summary

An ethics program that exists on paper but never in the hearts, minds, and actions of the organization's employees creates a breeding ground for violations. Learning a lesson from the ethics scandals that have toppled many once-great companies, legislators and regulators have begun holding business leaders accountable for not only ensuring that they have the appropriate mechanisms in place (the ethics program), but also to ensure that they have created the appropriate culture. Legislation such as the Sarbanes-Oxley Act and the revisions to the Federal Sentencing Guidelines for Organizations have set a new standard for organizations: there will be consequences for organizations that are not conscious about the type of culture they develop.

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Business leaders have thus been handed a heavy responsibility, but one for which they are especially well suited. Leaders have the power to shape the culture of their organizations. What is needed in the business world is a better understanding of what ethical culture means and how business leaders can make the most impact.

The goal of this paper is to highlight key concepts and important findings from the existing body of research on ethical culture. The first section presents two distinct but related concepts: ethical culture and ethical climate. Next, ways in which ethical climate and ethical culture impact organizations and the behavior of employees are examined. In the third section, the origins of ethical culture and climate are explored and a deeper understanding of the role of leadership is gained. Finally, there is a discussion of strategies for leaders to improve and manage ethical culture and climate in their organizations.

### ***What Is “Ethical Culture?”***

What is generally referred to as “ethical culture” is actually a concept that integrates two distinct systems—ethical culture and ethical climate. It is imperative to take an in-depth look at both systems in order to fully understand “ethical culture.”

#### *Ethical Culture*

Ethical culture looks (anthropologically) at how an organization demonstrates and teaches the extent to which it regards its values. Specifically, the ethical culture of an organization:

- teaches employees whether doing the right thing matters;
- makes doing what is right expected; and
- includes formal ethics program elements, reward and punishment systems, and organizational myths.

#### *Ethical Climate*

Ethical climate is concerned with the “collective personality” of the organization. It is the psychological view of the organization. Ethical climate particularly focuses on:

- ethics-related attitudes,
- perceptions, and
- decision-making processes in an organization.

### ***What Is the Impact of Ethical Climate and Culture?***

In organizations where the formal and informal structures—derived from the ethical climate and culture — encourage ethical behavior, employee behavior will be more ethical. Specifically, ethical climate and culture impact the following:

- Employees' organizational commitment;
- Employee satisfaction;
- Rates of misconduct;
- Employees' perceptions of leadership;
- Employee performance; and
- Organization's expenses.

Furthermore, the effects of the ethical climate and culture on ethical behavior are even supported across cultures.

### ***How Do Ethical Cultures and Climates Form?***

Both ethical culture and climate are subsets of the larger organizational culture/climate and as such, are influenced by the factors that shape the organization overall. In particular, ethical culture and climate are formed through:

- The organizational life cycle;
- The organizational leaders' beliefs and actions; and
- The formal and informal organizational mechanisms.

### ***What's a Leader to Do?***

Leaders should work to create a values-based ethics program that also encourages compliance with the law. Additionally, they must demonstrate their concern for the interests of internal and external stakeholders and commit to making the needs of others a business priority (Trevino, et al., 1999). Finally, they must remember that ethical leadership requires modeling, coaching, and careful communication. In order to demonstrate their commitment to ethics and to promote ethics in the culture and climate of their organization, leaders should:

- walk the walk;
- keep people in the loop;
- encourage thoughtful dissent;
- show them that you care;
- don't sweep problems under the rug;
- celebrate the successes;
- be fair;
- make ethics a priority;
- make the tough calls; and
- get the right people, and keep them.

Ethical commitment must not be just platitudes and plaques. As both research and experience prove, ethics programs that serve merely as "window dressings" do no good—and may even be harmful. In order to ensure a positive ethical climate and culture, we must develop and implement performance objectives related to this critical organizational task. A holistic approach to ethics assessment and evaluation involves several elements:

- performance evaluations;
- baseline assessment; and
- regular re-assessment and benchmarking.

### ***Conclusion***

Maintaining a strong ethical culture is essential for complying with the laws and regulations, but this alone cannot be the motivation for ethical culture building. Beyond the large impact an organization's culture has on the bottom line, the development of programs to foster ethical conduct must maintain a focus on fairness, encouragement, and communication at all employee levels. Along these lines, employees must be given the appropriate tools and models to align their behavior with company culture and engage in ethical decision-making.

The attitudes, choices, and actions of business leaders play a primary role in the creation of an organization's ethical culture and climate; expectations for employees' ethical behavior can only be set as high as the organization's leadership is willing to meet. A leader's ability to consistently promote ethical conduct in an organization is critical to ensuring that employees understand how to make "doing what is right" a priority.