Creating an Ethical Organizational Climate

Bad ethics is bad business.
—Anonymous

What’s Ahead
Leaders act as ethics officers for their organizations, exercising influence through the process of social learning and by building positive ethical climates. Healthy ethical climates are marked by zero tolerance for destructive behaviors, integrity (ethical soundness, wholeness, and consistency), concern for process as well as product, structural reinforcement, and social responsibility. Important tools for building an ethical organizational climate include shared values, codes of ethics, and continuous ethical improvement.

The Leader as Ethics Officer
In the introduction to this text I argued that ethics is at the heart of leadership. When we become leaders, we assume the ethical responsibilities that come with that role. Nowhere is this more apparent than in the organizational context. Examine nearly any corporate scandal—AIG Insurance, Arthur Andersen, Enron, Health South, Sotheby’s auction house, Fannie Mae, Hollinger International, Marsh & McLennan, Quest—and you’ll find leaders who engaged in immoral behavior and encouraged their followers to do the same. The same pattern can be
found in the nonprofit sector (e.g., the Baptist Foundation of Arizona, New Era Philanthropy, United Way). On a more positive note, leaders are largely responsible for creating the organizations we admire for their ethical behavior.

Leaders are the ethics officers of their organizations, casting light or shadow in large part through the example they set. Michael Brown and Linda Trevino draw on social learning theory to explain why and how ethical organizational leaders influence followers.¹ Social learning theory is based on the premise that people learn by observing and then emulating the values, attitudes, and behaviors of people they find legitimate, attractive, and credible. When it comes to ethics, followers look to their leaders as role models and act accordingly. Leaders are generally seen as legitimate, credible, and attractive because they occupy positions of authority with power and status. Ethical leaders build on this foundation. They increase their legitimacy by treating employees fairly and boost their attractiveness by expressing care and concern for followers. They enhance their credibility (particularly perceptions of their trustworthiness) by living up to the values they espouse. Such leaders are open and honest and set clear, high standards that they follow themselves.

Moral leaders make sure that ethics messages aren’t drowned out by other messages about tasks and profits. They focus attention on ethics through frequent communication about values, mission, corporate standards, and the importance of ethical behavior. They reinforce follower learning by using rewards and punishments to regulate behavior, which makes it clear which actions are acceptable and which are not.

Trevino, Brown, and their colleagues distinguish between ethical leaders and those who are unethical, hypocritical, or ethically neutral.² The unethical leader, like Al Dunlap, falls short as both a moral person and a moral influence agent. This person casts one or more of the shadows described in Chapter 1 by bullying others, deceiving investors, acting irresponsibility, and so on. At the same, the unethical leader clearly communicates that ethics don’t matter, just results. The hypocritical leader talks a lot about ethical values but doesn’t live up to the rhetoric. Prominent pastor Ted Haggard is an example of a hypocritical leader. As leader of the National Association of Evangelicals, he led public efforts to condemn homosexuality while he was carrying on an affair with a male prostitute. (Another hypocritical leader is the subject of the “Leadership Ethics at the Movies” case in Box 9.1.) The ethically neutral leader is not clearly seen as either ethical or unethical. This person doesn’t send out strong messages about ethics and leaves followers unsure about where he or she stands on moral issues. Ethically neutral leaders appear to be self-centered and focus exclusively on the bottom line. Sandy Weill, former Citigroup CEO, typifies the ethically neutral leader. Weill stayed on the sidelines when it came to ethics, rewarding his managers according to their results. It was during his tenure that Salomon analyst Jack Grubman continued to
promote Winstar Communications even as it was heading for bankruptcy. The chapter end case, “The High Cost of Ethical Neutrality,” is another case in which a leader focused more on financial performance than on ethics.

From their analysis of the four categories of ethical leadership, Trevino and her colleagues conclude that acting ethically is not enough. Executives must also ensure that employees know that they care (aren’t just neutral) about ethics. Otherwise, followers will continue to focus on financial results without concern for ethics. Ethical leaders make ethical considerations a top organizational priority. They create positive ethical climates that promote moral behavior by leaders and followers alike. Identifying the characteristics of healthy ethical climates is the subject of the next section.

**Ethical Climates**

Ethical climate is best understood as part of an organization’s culture. From the cultural vantage point, an organization is a tribe. As tribal members gather, they develop their own language, stories, beliefs, assumptions, ceremonies, and power structures. These elements combine to form a unique perspective on the world called the organization’s culture. How an organization responds to

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**Box 9.1**

**Leadership Ethics at the Movies**

**BREACH**

*Key Cast Members:* Chris Cooper, Ryan Phillippe, Laura Linney

*Synopsis:* Based on the true story of FBI operative Robert Hanssen, the source of the greatest security breach in U.S. history. A devoted church member and grandparent, Hanssen sold classified information to the Soviets that caused billions of dollars worth of damage and resulted in the executions of American agents. Young Eric O’Neill (Phillippe) is assigned to work for Hanssen (Cooper) in order to gather enough information to convict him. O’Neill struggles to maintain his integrity and marriage while he betrays Hanssen.

*Rating:* PG-13 for violence, sexual content, and language

*Themes:* hypocritical and unethical leadership, courageous followership, deception, loyalty, character, unhealthy motivations
ethical issues is a part of this culture. Every organization faces a special set of ethical challenges, creates its own set of values and norms, develops guidelines for enforcing its ethical standards, honors particular ethical heroes, and so on. Ethical climate, in turn, determines what members believe is right or wrong and shapes their ethical decision making and behavior.

Management professors Bart Victor and John Cullen argue that ethical climates can be classified according to the criteria members use to make moral choices and the groups members refer to when making ethical determinations. Victor and Cullen identify five primary climate types. Instrumental climates follow the principle of ethical egotism. Ethical egotists make decisions based on selfish interests that serve the individual and his or her immediate group and organization. Caring climates emphasize concern or care for others. Law and order climates are driven by external criteria such as professional codes of conduct. Rules climates are governed by the policies, rules, and procedures developed in the organization. Independence climates give members wide latitude to make their own decisions.

Leaders would do well to know the particular ethical orientation of their organizations. To begin, each of the five climate types poses unique ethical challenges. Members of instrumental organizations often ignore the needs of others, whereas those driven by a care ethic are tempted to overlook the rules to help out friends and colleagues. Leaders and followers in law and order cultures may be blind to the needs of coworkers because they rely on outside standards for guidance. On the other hand, those who play by organizational rules may be blinded to societal norms. Independence produces the best results when members have the knowledge and skills they need to make good decisions.

Follow-up studies using the Victor and Cullen climate types suggest that self-interest poses the greatest threat to ethical performance. Rates of immoral behavior are highest in work units and organizations with instrumental climates. Members of these groups are also less committed to their organizations. Rules and law and code climates encourage ethical behavior; caring (benevolent) climates promote employee loyalty. Employees are more satisfied when their personal ethical preferences match those of their organizations.

**Signs of Healthy Ethical Climates**

There is no one-size-fits-all approach to creating an ethical climate. Rather, we need to identify principles and practices that characterize positive ethical climates. Then we have to adapt these elements to our particular organizational setting. Key markers of highly ethical organizations include zero tolerance for destructive behaviors, integrity, a focus on process, and structural reinforcement. (For a list of the signs of unhealthy climates, see Box 9.2.)
Focus on Follower Ethics

THE SEVEN SIGNS OF ETHICAL COLLAPSE

Arizona State University business ethics professor Marianne Jennings identifies seven signs that a company is in deep ethical trouble. Identifying these signs can keep us from joining a questionable organization, help us recognize whether our current organization is in danger, and encourage us to take steps as followers to stop the decline.

Sign 1: Pressure to Maintain Numbers

The first sign of ethical trouble is obsession with meeting quantifiable goals. Driven by numbers, companies overstate sales, hide expenses, make bad loans, and ship defective products. Nonprofits also feel the pressure to reach their goal numbers. Universities want to be ranked highly by *US News and World Report* and other publications, so they may lie about graduation and placement rates. Charities, driven to achieve their fund-raising goals, may make false claims about how many people they serve (see Case Study 9.1).

Sign 2: Fear and Silence

In every moral meltdown there are indications that something is seriously amiss. For example, employees at Enron circulated a top 10 list titled “Top Ten Reasons Enron Restructures So Frequently.” Item 7 on the list said, “To keep the outside investment analysts so confused that they will not be able to figure out that we don’t know what we’re doing.” However, few challenge the status quo because those who do so are publicly shamed, demoted, or dismissed. Others don’t want to believe that the organization is in trouble; still others are bribed into silence through generous salaries and loan packages.

Sign 3: Young ’Uns and a Bigger-Than-Life CEO

Some CEOs become icons who are adored by the community and the media (though often not by employees). Outsiders are loath to criticize the legendary CEO when everyone is singing his or her praises. The iconic CEO also surrounds him or herself with loyal supporters who are often young and inexperienced. For example, CEOs brought in their sons and daughters to help them run AIG Insurance, Archer Daniels Midland, and Adelphia, all companies that ran afoul of the law.

Sign 4: Weak Board

The boards of companies on the verge of moral collapse are weak for a variety of reasons. They may have inexperienced members, be made up of friends of the CEO, or be reluctant to rein in a legendary CEO. Members may fail to attend meetings or devote the necessary time to their board roles. The board of HealthSouth is a case in point. HealthSouth (which engaged in Medicare and accounting fraud) was made up of company officers and outsiders who had contracts and other financial relationships with CEO Richard Scrushy and the firm. The HealthSouth board ignored lawsuits and federal investigations that indicated that the company was in trouble.
ZERO TOLERANCE FOR DESTRUCTIVE BEHAVIORS

Researchers report that organizations, like individuals, have their “dark sides.” Some organizations, such as humanitarian relief agencies and socially responsible businesses, shine brightly. Others, such as corrupt police departments and authoritarian political regimes, are cloaked in darkness. Few of us will experience the oppression of truly dark organizations. However, most of us will experience the shadows cast by dark side behaviors. These are destructive or antisocial actions that deliberately attempt to harm others or the organization. Those who engage in such unethical behaviors are driven to
meet their own needs at the expense of coworkers and the group as a whole. Common categories of misbehaviors include incivility, aggression, sexual harassment, and discrimination.

**Incivility** consists of rude or discourteous actions that disregard others and violate norms for respect. Such actions can be intentional or unintentional; they include leaving a mess for the maintenance staff to pick up, sending a “flaming” e-mail, claiming credit for someone else’s work, making fun of a peer, or inadvertently ignoring a team member on the way into the office. Incivility reduces employee job satisfaction, task performance, motivation, loyalty, performance, creativity, and willingness to cooperate.

**Aggression** refers to consciously trying to hurt others or the organization itself. Aggressive behaviors can take a variety of forms, ranging from refusing to answer e-mails to swearing at coworkers to murder. Such behaviors can be categorized along three dimensions. They can be physical–verbal (destructive words or deeds), active–passive (doing harm by acting or failing to act), or direct–indirect (doing harm directly to the other person or indirectly through an intermediary and attacking something that the target values). Aggression does extensive damage to individuals and organizations. Victims may be hurt; experience more stress, which leads to poor health; become fearful, depressed, or angry; lose the ability to concentrate; and feel less committed to their jobs. Observers of aggressive incidents also experience more anxiety and have a lower sense of well-being and commitment. Performance at the organizational level drops as a product of the aggressive actions of employees. Workplace aggression reduces productivity while increasing absenteeism and turnover. Organizations become the targets of lawsuits and negative publicity.

**Sexual harassment** is a form of aggression directed largely at women. Quid pro quo harassment occurs when targets are coerced into providing sexual favors in return for keeping their jobs or getting promoted. Hostile work environment harassment exists when job conditions interfere with job performance. Components of hostile working conditions include demeaning comments, suggestive gestures, threats, propositions, bribes, and sexual assault. The work performance of victims drops, and they may quit their jobs. Targets also suffer physically (headaches, sleep loss, nausea, eating disorders) and psychologically (depression, fear, a sense of helplessness).

**Discrimination** is putting members of selected groups, such as women, minorities, disabled employees, older workers, and homeless people, at a disadvantage. Such negative treatment is generally based on stereotypes and prejudice (e.g., older workers can’t learn new skills, Hispanics are lazy). Because of the passage of antidiscrimination laws and changes in societal values, employment discrimination is generally expressed subtly through such behaviors as dismissing the achievements of people of color and women, avoiding members of low-status groups, and hiring and promoting those of similar backgrounds.
Destructive behaviors are all too common in modern organizations. Twenty percent of one sample reported being the targets of uncivil messages in a given week. There were 15,000 incidents of violence resulting in time away from work in one 12-month period, and assaults and suicides account for 13% of all deaths on the job. Fifty to sixty percent of female students and employees report being the targets of harassing actions. Unemployment rates are significantly higher for minorities and women, and people of color continue to earn less than white men.11

Fortunately, leaders like those described in the “Agenda for Change” chapter end case can significantly reduce the rate of destructive behaviors by actively seeking to prevent and control them. Moral leaders

1. Create zero-tolerance policies that prohibit antisocial actions. (We’ll take a closer look at codes of ethics later in the chapter.) They insist on employee-to-employee civility, forbid aggression and sexual harassment, and prohibit discrimination.

2. Obey guidelines. As noted earlier, leaders are powerful role models. Zero-tolerance policies will have little effect if leaders do not follow the rules they set. Ironically, leaders are most likely to violate standards because they believe that they are exceptions to the rules (see the discussion of unhealthy motivations in Chapter 2). Furthermore, because they are in positions of power, leaders are freer to act uncivilly, to bully others, or to offer favors in return for sex.

3. Constantly monitor for possible violations. Destructive behavior may be hidden from the view of top leaders. Some managers are good at “kissing up and kicking down,” for example. They act respectfully toward superiors while bullying employees and treating them with disrespect. Ethical leaders actively seek feedback from employees further down the organizational hierarchy. They conduct 360% reviews that allow employees to rate their supervisors and provide channels (human relations departments, open door policies) for reporting misbehaviors. Those who come forward with complaints are protected from retribution.

4. Move quickly when standards are violated. Ethical leaders quickly investigate charges of sexual harassment and discrimination, for instance, and don’t hesitate to punish offenders. They recognize that failing to act sends the wrong message, undermining ethical climate. If left unchecked, incivility escalates into aggression. A culture of aggression forms when abusive members are allowed to act as role models. Victims of sexual harassment won’t come forward if they think that their leaders won’t respond. Patterns of discrimination perpetuate themselves unless leaders intervene.

5. Address the underlying factors that trigger destructive actions. Moral leaders try to screen out potential employees who have a history of destructive behavior. They also try to eliminate situational elements that produce antisocial
action. Important contextual triggers include unpleasant working conditions, job stress, oppressive supervision, perceived injustice, and extreme competitiveness.\textsuperscript{12}

\section*{INTEGRITY}

Integrity is ethical soundness, wholeness, and consistency.\textsuperscript{13} All units and organizational levels share a commitment to high moral standards, backing up their ethical talk with their ethical walk. Consistency increases the level of trust, encouraging members and units to be vulnerable to one another. They are more willing to share undistorted information, negotiate in good faith, take risks, share authority for making decisions, collaborate, and follow through on promises. Organizational productivity and performance improve as a result (see Chapter 6).

According to business ethicist Lynn Paine, managers who act with integrity see ethics as a driving force of an enterprise. These leaders recognize that ethical values largely define what an organization is and what it hopes to accomplish. They keep these values in mind when making routine decisions. Their goal? To help constituents learn to govern their own behavior by following these same principles. Paine believes that any effort to improve organizational integrity must include the following elements:\textsuperscript{14}

\begin{quote}
There are sensible, clearly communicated values and commitments. These values and commitments spell out the organization’s obligations to external stakeholders (customers, suppliers, neighbors) while appealing to insiders. In highly ethical organizations, members take shared values seriously and don’t hesitate to talk about them.

Company leaders are committed to and act on the values. Leaders consistently back the values, use them when making choices, and determine priorities when ethical obligations conflict with one another. For example, former Southwest Airlines president Herb Kelleher put a high value both on the needs of his employees and on customer service. However, it’s clear that his workers came first. He didn’t hesitate to take their side when customers unfairly criticized them. Such principled leadership was missing at Arthur Andersen. Andersen accountants certified the financial statements of Quest, Waste Management, Boston Chicken, Global Crossing, WorldCom, and the Baptist Foundation of Arizona, which were all found guilty of accounting fraud. They were reluctant to challenge the accounting practices of clients because they didn’t want to lose lucrative consulting contracts with these organizations. Andersen’s managing partners dissolved the firm after executives were convicted for obstruction of justice for shredding Enron documents.\textsuperscript{15}

The values are part of the routine decision-making process and are factored into every important organizational activity. Ethical considerations shape such activities as
planning and goal setting, spending, the gathering and sharing of information, evaluation, and promotion.

*Systems and structures support and reinforce organizational commitments.* Systems and structures, such as the organizational chart, how work is processed, budgeting procedures, and product development, serve the organization’s values. (I’ll have more to say about the relationship between ethics and structure later in the chapter.)

*Leaders throughout the organization have the knowledge and skills they need to make ethical decisions.* Organizational leaders make ethical choices every day. To demonstrate integrity, they must have the necessary skills, knowledge, and experience (see our discussion of ethical development in Chapter 2). Ethics education and training must be part of their professional development.

Paine and other observers warn us not to confuse integrity with compliance. Ethical compliance strategies are generally responses to outside pressures such as media scrutiny, the U.S. Sentencing Commission guidelines, or the Sarbanes–Oxley Act.Under these federal guidelines, corporate executives can be fined and jailed not only for their ethical misdeeds but also for failing to take reasonable steps to prevent the illegal behavior of employees. Although compliance tactics look good to outsiders, they don’t have a lasting impact on ethical climate. Consider the ethics programs of many Fortune 1000 companies, for example. Nearly all of the nation’s largest firms have ethical strategies in place, including formal ethics codes and policies, ethics officers, and systems for registering and dealing with ethical concerns and complaints. However, most of these programs have minimal influence on company operations. Many ethics officials devote only a small portion of their time to their ethical duties, and some complaint hotlines are rarely used. CEOs typically discuss ethical topics with their ethics officers only once or twice a year, attend no meetings focusing primarily on ethics, and rarely communicate to employees about ethics. Followers generally don’t receive more than one ethical message annually, and one-fifth to one-third of lower-level workers receive no ethics training at all in a given year. A similar compliance focus is found in Canadian firms.

The contrast between compliance and integrity is reflected in the model of corporate moral development offered by Eric Reidenbach and Donald Robin. These theorists argue that organizations can be classified according to their level of ethical progress. Stage I *amoral organizations* occupy the lowest level on the hierarchy. Such companies largely ignore ethical concerns, focusing solely on productivity and profit. To them, fines and penalties are the cost of doing business. Dishonest telemarketing firms fall into this category. Next up are Stage II *legalistic organizations,* in which leaders equate ethics with following societal rules and want to protect their organizations from harm. Large tobacco
companies, such as R. J. Reynolds, Philip Morris, and Brown & Williamson, are Stage II organizations that believe that there is nothing wrong with selling cigarettes because such activity is not prohibited by law.

Responsive organizations (Stage III) are concerned about external stakeholders and with being seen as responsible corporate citizens. Yet they often find themselves reacting to ethical problems rather than anticipating them before they occur. Proctor & Gamble’s reaction to the toxic shock syndrome of the 1980s is typical of responsive organizations. When notified of the possible link between Rely tampons and toxic shock, the company bought back all unsold products and sponsored research into the disease at the Centers for Disease Control. Emergent ethical organizations (Stage IV) are more advanced than their Stage III counterparts because these groups actively manage their cultures to improve ethical climate. They create a variety of ethical vehicles (handbooks, policy statements, ombudspersons) to shape and communicate important values and standards. Johnson & Johnson, Lockheed Martin, and Sara Lee are Stage IV organizations that go to great lengths to emphasize that ethics and not just profits should guide corporate activities.

The highest level of moral development is the Stage V ethical organization. Groups in this stage model integrity. Company officers and employees select core values and use these principles in everything from strategic planning to hiring and firing. Furthermore, they try to anticipate ethical problems that might arise. Examples of contemporary Stage V corporations are hard to find, but Reidenbach and Robin point to Sir Adrian Cadbury as a model of how to incorporate ethics into organizational operations. The founder of Britain’s Cadbury chocolates was confronted with the choice of whether to supply Christmas tins to English soldiers during the Boer War. Cadbury (a Quaker) opposed the war but realized that his employees and the soldiers would be hurt if he turned down the contract. He resolved the problem by providing the chocolates at cost. His employees were then paid, but Sir Adrian didn’t benefit personally from the contract. 20

PROCESS FOCUS (CONCERN FOR MEANS AND ENDS)

Concern for how an organization achieves its goals is another important indicator of a healthy ethical climate. In far too many organizations, leaders set demanding performance goals but intentionally or unintentionally ignore how these objectives are to be reached. Instead, 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. 21 Anomie increases the likelihood that group members will engage in illegal activities and reduces their resistance to demands from authority figures who want them to break the law. Loss of confidence in the
organization may also encourage alienated employees to retaliate against coworkers and the group as a whole.

Leaders can address the problem of anomie by making sure that goals are achieved through ethical means. False promises cannot be used to land accounts, all debts must be fully disclosed to investors, kickbacks are prohibited, and so on. They can also make a stronger link between means and ends through ethics programs that address all aspects of organizational ethical performance.

STRUCTURAL REINFORCEMENT

An organization’s structure shouldn’t undermine the ethical standards of its members, but as I noted in our discussion of integrity, it should encourage higher ethical performance on the part of both leaders and followers. Three elements of an organization’s structure have a particularly strong impact on moral behavior:

1. **Monetary and nonmonetary reward systems.** Organizations often encourage unethical behavior by rewarding it. Consider the case of the software company that paid programmers $20 to correct each software bug they found. Soon programmers were deliberately creating bugs to fix! A visit to the local 10-minute oil change shop provides another example of the impact of misplaced rewards. Some lube and oil franchises pay managers and employees based in part on how many additional services and parts they sell beyond the basic oil change. As a consequence, unscrupulous mechanics persuade car owners to buy unneeded air filters, transmission flushes, and wiper blades. It is not always easy to determine all the consequences of a particular reward system. However, ethical leaders make every effort to ensure that desired moral behaviors are rewarded, not discouraged.

2. **Performance and evaluation processes.** Performance and evaluation processes must reflect the balance between means and ends described earlier, monitoring both how and whether goals are achieved. Ethically insensitive monitoring processes fail to detect illegal and immoral behavior and may actually make such practices more likely. As noted earlier, when poor behavior goes unpunished, followers may assume that leaders condone and expect such actions. Salomon, Inc., described at the end of Chapter 2, is a case in point. Failure to swiftly punish star performers Paul Mozer and Jack Grubman cost the company millions and eventually led to its demise.

3. **Decision-making rights and responsibilities.** Ethical conduct is more likely when workers are responsible for ethical decisions and have the authority to choose how to respond. Leaders at ethical organizations do all they can to ensure that those closest to the process or problem can communicate their concerns about ethical issues. These managers also empower followers to make and implement their choices. Unfortunately, employees with the most knowledge are often excluded from the decision-making process or lack the power to follow through on their choices. Such was the case in the Columbia shuttle explosion profiled in Chapter 8. Higher-ranking NASA officials dismissed the concerns of lower-level managers.
SOCIAL RESPONSIBILITY

Concern for those outside the organization is another sign of a healthy ethical climate. Ethical organizations recognize that they have obligations to their communities. For example, responsible corporations engage in “triple bottom line” accounting. They evaluate their success not just on financial results but also on their social and environmental performance. Good corporate citizens send volunteers to Habitat for Humanity building projects, sponsor food drives, set up philanthropic organizations to give money to needy causes, and so forth. At the same time, they address environmental problems by taking such steps as capping plant emissions, using recycled components, creating less toxic products, reducing oil consumption, and buying from environmentally friendly suppliers. For example, Starbucks incorporates social responsibility into its corporate values. One of its guiding principles is “sustaining coffee communities.” Another is “contributing positively to communities and the environment.” Individual stores are free to promote local charities through volunteer hours, store products, and cash contributions. Corporate headquarters supports literacy programs and disaster relief. To measure its progress, the firm commissions an annual social responsibility report that indicates whether the company is reaching its social goals. (More examples of socially responsible corporations can be found in the discussion of corporate values to follow.)

Recognizing the legitimate claims of stakeholders is key to social responsibility. Stakeholders are any group affected by the organization's policies and operations. Organizational stakeholders might include shareholders, suppliers, competitors, customers, creditors, unions, governments, local communities, and the general public. Stakeholder theorists argue that organizational leaders have an ethical obligation to consider such groups because they have intrinsic value and ought to be treated justly. Reaching out to these parties contributes to the common good of society. Socially responsible organizations try to identify all stakeholders and their interests. They try to be accountable to these groups, cooperating with them whenever possible and minimizing the negative impact of organizational activities. When needed, these organizations engage in dialogue with their critics, as Nike did after years of ignoring public outcry about conditions at its overseas suppliers. The firm invited human rights, labor, and environmental officials to company headquarters to discuss international worker issues.

Climate-Building Tools

To build ethical organizational climates, leaders rely heavily on three tools: core values, codes of ethics, and ethical learning.
DISCOVERING CORE VALUES

Identifying and applying ethical values is an important step to creating a highly moral climate. Leaders promoting integrity first define and then focus attention on central ethical values. I noted in Chapter 3 that comparing responses on a standardized value list can be a way to clarify group and organizational priorities. In this section, I will introduce additional strategies specifically designed to reveal shared values, purposes, and assumptions.

**Core Ideology**

Management experts James Collins and Jerry Porras use the term *core ideology* to refer to the central identity or character of an organization. The character of outstanding companies remains constant even as these firms continually learn and adapt. According to Collins and Porras, “truly great companies understand the difference between what should never change and what should be open for change, between what is genuinely sacred and what is not.”

Core values are the first component of core ideology. (See Box 9.3 for some examples.) One way to determine whether a value is sacred to your organization is to ask, “What would happen if we were penalized for holding this standard?” If you can’t honestly say that you would keep this value if it cost your group market share or profits, then it shouldn’t show up on your final list. To determine who should be involved in spelling out core values, Collins and Porras recommend the Mars Group technique described in Box 9.4.

Core purpose is the second part of an organization’s ideology. *Purpose* is the group’s reason for being that reflects the ideals of its members. Here are some examples of corporate purpose statements:

- To be the world’s best staffing services company and to be recognized as the best. (Kelly Services)
- Bring to the world pharmaceutical and health care products that improve lives and deliver outstanding value to our customers and shareholders. (Wyeth)
- To bring inspiration and innovation to every athlete in the world. (Nike)
- To be the most powerful one-stop shop to connect people with the wonders of modern technology. (Radio Shack)
- To simply delight you . . . every day. (Sara Lee)
- Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit. (Southwest Airlines)

Asking the “Five Whys” is one way to identify organizational purpose. Start with a description of what your organization does and then ask why that
Box 9.3

Core Values

Eaton Corporation
- Make our customers the focus of everything we do
- Recognize our people as our greatest asset
- Treat each other with respect
- Be fair, honest, and open
- Be considerate of the environment and our communities
- Keep our commitments
- Strive for excellence

Levi Strauss
- Empathy—Walking in other people's shoes
- Originality—Being authentic and innovative
- Integrity—Doing the right thing
- Courage—Standing up for what we believe

Amgen Inc.
- Be science-based
- Compete intensely and win
- Create value for patients, staff and stockholders
- Be ethical
- Trust and respect each other
- Ensure quality
- Work in teams
- Collaborate, communicate and be accountable

Denny's
- Giving our best
- Appreciating others
- A can-do attitude

First Horizon National Corporation
- Exceptional teamwork
- Individual accountability
- Absolute determination
- Knowing our customers
- Doing the right thing.

activity is important five separate times. Each “why?” will get you closer to the fundamental mission of your group.

Your organization’s purpose statement should inspire members. (Don’t make high profits or stock dividends your goal because they don’t motivate people at every level of the organization.) Your purpose should also serve as an organizational anchor. Every other element of your organization (business plans, expansion efforts, buildings, products) will come and go, but your purpose and values will remain.

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**Box 9.4**

**Self-Assessment**

**MARS GROUP TECHNIQUE**

Imagine that you have been asked to re-create the very best attributes of your organization (school, business, nonprofit) on another planet. There are only enough seats on the rocket ship for five to seven people, so select highly credible, competent people to go with you on the trip. Meet as a group and work from personal to organizational values by considering these questions:

- What core values (values that you would hold regardless of whether they were rewarded) do you personally bring to your work?
- What values would you tell your children that you hold at work and that you hope they will hold as working adults?
- If you woke up tomorrow morning with enough money to retire, would you continue to live with those core values? Can you envision them being as valid for you 100 years from now as they are today?
- Would you want to hold these core values even if one or more of them became a competitive disadvantage?
- If you were to start a new organization in a different line of work, what core values would you build into the new organization regardless of industry?

Summarize your conclusions and present them to others in your class or organization. Compare your values with those of other groups traveling on other spaceships. Conclude by reflecting on what you’ve learned about yourself and your organization from this exercise. How well do your values match those of the larger group?

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Values Adoption Process

Wife-and-husband team Susan and Thomas Kuczmarski believe that everyone in an organization ought to be involved in the value identification process, not just a select group. Their organization-wide approach is called the values adoption process (VAP). In Stage 1, the CEO or designated facilitator kicks off the process in face-to-face conversations or public meetings. Members record their personal values, ones that they would want to be shared in the workplace. These values are then collected, prioritized, and segmented into department or topic groups (manufacturing, research and development, workplace relationships, product quality, innovation). In Stage 2, groups of followers and leaders meet to identify the most important categories and develop a list of specific values for adoption. Roughly 20 values should be identified (10 as “must have” and 10 as “would like to have”).

In Stage 3, all members develop a People Values Pledge and an Organization Values Pledge. The People Values Pledge summarizes how each individual should act toward others in the organization (e.g., “Have a sense of humor,” “Set egos aside,” and “Respect diversity”). The Organization Values Pledge reflects the commitment of top leaders to members, such as “Recognize and reward excellence,” “Encourage risk taking,” and “Honor teamwork”). Both value statements are distributed to members through cards, plaques, annual reports, newsletters, and other means.

In Stage 4, the organization translates internal values to outside audiences. It surveys customers to determine what values they see the organization conveying through its product, market position, and service; what values they would want the organization to communicate; which value should have top priority; and what new value the organization should adopt. This information is then communicated to employees, who create a Customer Values Pledge. These values guide the development of new products and services and efforts to market them.

Once collective values have been identified, organizations ought to give careful thought to how their values will be translated into action. To this end, the Kuczmarskis encourage individuals and then small groups to identify and to analyze current group norms. Which norms should be dropped? Added? Leaders should make sure an organization’s norms support its values, paying particular attention to the following:

- People systems (training, pay, evaluation, promotion)
- Policies and practices (selection and recruiting, management style and decision making, degree of employee participation)
- Physical systems (organization structure, job descriptions, communication and information systems)
Codes of ethics are among the most common ethics tools. Companies listed on the New York Stock Exchange and the Nasdaq are required to have them, and under the Sarbanes–Oxley Act, public firms must disclose whether they have a code for their senior executives. Many government departments, professional associations, social service agencies, and schools have developed codes as well. Nevertheless, formal ethics statements are as controversial as they are popular. Skeptics make these criticisms:

- Codes are too vague to be useful.
- Codes may not be widely distributed or read.
- Most codes are developed as public relations documents designed solely to improve an organization’s image.
- Codes don’t improve the ethical climate of an organization or produce more ethical behavior.
- Codes often become the final word on the subject of ethics.
- Codes are hard to apply across cultures and in different situations.
- Codes often lack adequate enforcement provisions.
- Codes often fail to spell out which ethical obligations should take priority, or they put the needs of the organization ahead of those of society as a whole.
- Adherence to codes often goes unrewarded.

The experience of Enron highlights the shortcomings of formal ethical statements. Company officials had a “beautifully written” code of ethics that specifically prohibited the off-the-books financial deals that led to its bankruptcy (see Chapter 1). Unfortunately, these same executives convinced the board of directors to waive this prohibition.

Defenders of ethical codes point to their potential benefits. First, a code describes an organization’s ethical stance both to members and to the outside world. Newcomers, in particular, look to the code for guidance about an organization’s ethical standards and potential ethical problems they may face in carrying out their duties. Second, a formal ethics statement can improve the group’s image while protecting it from lawsuits and further regulation. In the case of wrongdoing, an organization can point to the code as evidence that the unethical behavior is limited to a few individuals and not the policy of the company as a whole. Third, referring to a code can encourage followers and leaders to resist unethical group and organizational pressures. Fourth, a written document can have a direct, positive influence on ethical behavior. Students who sign honor codes, for example, are significantly less likely to plagiarize and cheat on tests. (See Case Study 9.1 for a closer look at the problem of academic cheating.) Employees in companies with formal codes of ethics judge themselves, their coworkers, and their leaders to be more ethical than workers in companies that don’t have codes. Members of code organizations believe that their organizations are more supportive of ethical behavior and express a higher level of organizational commitment.
CASE STUDY 9.1
Cutting Corners at the University

Academic cheating—claiming someone else’s work as your own—has reached epidemic proportions among college students in the United States and Canada. Donald McCabe, a Rutgers professor who studies cheating, found that 21% of the 40,000 American and Canadian undergraduates he surveyed acknowledged at least one instance of serious cheating on a test, and 51% admitted to serious cheating on written work. In another study, 56% of graduate business students and 47% of nonbusiness graduate students reported that they had cheated at least once in the past year. Some cases of cheating have made the headlines. Thirty-four students at Duke University’s School of Business were convicted of cheating. Freshmen at the Air Force Academy shared answers on a test of basic military knowledge. Would-be dentists in New Jersey falsified records to certify that they could do root canals and extractions.

Technology has helped drive up the rate of cheating. The World Wide Web enables students to cut and paste sentences and paragraphs into their written work and to purchase papers online. Cheaters can send homework answers as computer files and use their cell phones and personal digital assistants to instant message answers to classmates during exams. (Some universities now ban such devices from test sites.)

Students report tremendous pressure to succeed. Cheating, then, appears to be a means to an end, helping undergraduates get jobs and to make it into graduate school and helping graduate students move on to better positions. Offenders often go unpunished. Those who don’t cheat are at a disadvantage and may be seen as naive because they won’t manipulate the system. According McCabe, “There’s this feeling that everybody else does it and I would be fool if I didn’t. I’m getting left behind.” This perception is bolstered by well-publicized examples of corporate fraud and cheating in athletics.

Many students aren’t clear as to what constitutes cheating. If they are used to working in teams, they may think its okay to work together on an individual assignment, for instance. Others may not realize it is important to cite every source. Then, too, there are students who think of cheating as a personal matter. They don’t believe that copying test questions or downloading material from the Internet is a problem for others. However, widespread cheating reduces the value of every degree granted by an institution, and dishonest habits established in school can carry over after graduation. There have been reports of police recruits and paramedics using notes and stolen exams to pass cardiopulmonary resuscitation and emergency medical tests. Coast Guard personnel have been charged with cheating on pilot license exams. And no one wants a root canal performed by a dentist who didn’t master this procedure while in school.
Alarmed by the rise in academic dishonesty, your college or university president has created an Integrity Task Force to come up with a plan for reducing cheating among students at your school. The president has asked you to serve as a representative on this panel. What suggestions would you make to the rest of the group?

NOTE


SOURCES


There’s no doubt that a code of ethics can be a vague document that has little impact on how members act. A number of organizations use these statements for purposes of image, not integrity. They want to appear concerned about ethical issues while protecting themselves from litigation. Just having a code on file, as in the case of Enron, doesn’t mean that it will be read or used. Nonetheless, creating an ethical statement can be an important first step on the road to organizational integrity. Although a code doesn’t guarantee moral improvement, it is hard to imagine an ethical organization without one. Codes can focus attention on important ethical standards, outline expectations, and help people act more appropriately. They have the most impact when senior executives make them a priority and follow their provisions while rewarding followers who do the same.

Communication ethicist Richard Johannsen believes that many of the objections to formal codes could be overcome by following these guidelines:

- Distinguish between ideals and minimum conditions. Identify which parts of the statement are goals to strive for and which are minimal or basic ethical standards.
Design the code for ordinary circumstances. Members shouldn’t have to demonstrate extraordinary courage or make unusual sacrifices in order to follow the code. Ensure that average employees can follow its guidelines.

Use clear, specific language. Important abstract terms such as “reasonable,” “distort,” and “falsify” should be explained and illustrated.

Prioritize obligations. Which commitments are most important to the client? The public? The employer? The profession?

Protect the larger community. Don’t protect the interests of the organization at the expense of the public. Speak to the needs of outside groups.

Focus on issues of particular importance to group members. Every organization and profession will face particular ethical dilemmas and temptations. For instance, lawyers must balance duties to clients with their responsibilities as officers of the court. Doctors try to provide the best care while health maintenance organizations pressure them to keep costs down. The code should address the group’s unique moral issues.

Stimulate further discussion and modification. Don’t file the code away or treat it as the final word on the subject of collective ethics. Use it to spark ethical discussion and modify its provisions when needed.

Provide guidance for the entire organization and the profession to which it belongs. Spell out the consequences when the business or nonprofit as a whole acts unethically. Who should respond and how? What role should outside groups (professional associations, accrediting bodies, regulatory agencies) play in responding to the organization’s ethical transgressions?

Outline the moral principles behind the code. Explain why an action is right based on ethical standards (communitarianism, utilitarianism, altruism) like those described in Chapter 5.

Encourage widespread input. Draw on all constituencies, including management, union members, and professionals, when developing the provisions of the code.

Back the code with enforcement. Create procedures for interpreting the code and applying sanctions. Ethics offices and officers should set up systems for reporting problems, investigating charges, and reaching conclusions. Possible punishments for ethical transgressions include informal warnings, formal reprimands that are entered into employment files, suspensions without pay, and terminations.
Most codes of ethics address the following:

- **Conflicts of interest.** Conflicts of interest arise when an employee benefits at the expense of the organization or can’t exercise independent judgment because of an investment, activity, or association. Even the appearance of a conflict of interest is problematic.
- **Records, funds, and assets.** Organizations must keep accurate records and protect funds and other assets. Such records (including financial statements) must meet state and federal regulations.
- **Information.** In for-profit organizations, employees can be liable if they or even their families reveal confidential information that undermines performance or competitive advantage. In the public sector, codes of ethics encourage employees to share rather than to withhold information from the public.
- **Outside relationships.** This category addresses contact with customers, suppliers, competitors, contractors, and other outside individuals and organizations. Includes prohibitions against bad-mouthing the competition, price fixing, and the sharing of sensitive information.
- **Employment practices.** Covers discrimination, sexual harassment, drug use, voluntary activities, and related human resource issues.
- **Other practices.** Sets policies related to a variety of other topics, including health and safety, the use of technology, the environment, political activities, and the use of organizational assets for personal benefit.

If you’re interested in developing or refining a code of ethics, you can use the examples in Box 9.5 as a model.

**CONTINUOUS ETHICAL IMPROVEMENT**

*The Need for Continuous Ethical Learnings*

Total quality management (TQM) is a buzzword at thousands of firms in Japan, the United States, and other countries. TQM describes a continuous improvement process designed to reduce product defects, improve response times, and eliminate waste. The TQM movement is founded on the belief that organizations, like individuals, learn through experience, observation, training, and other means. Although all organizations learn, some learn faster and more efficiently than others, a characteristic that gives them a competitive edge. Those that learn quickly produce better products in less time while responding to demographic shifts and technological advances. High-tech firms are particularly aware of the importance of rapid learning. They scramble to stay ahead in the development of memory chips, cell phones, software, and other products.

Organizations ought to be as concerned about continuous ethical improvement, what I’ll call total ethical management (TEM), as they are about improving products and services. Three factors should encourage ongoing ethical learning: risk, lingering ethical weaknesses, and change. Let’s take a closer look at each.
Conflicts of Interest (Cummins Engine Co.)

All of Cummins' employees are expected to use non-discriminatory practices throughout the supplier selection process. Every employee is expected to avoid any situation in which his or her interests (or those of his or her family) may conflict with the interests of the company. Every employee with a financial interest in any actual or potential supplier or customer must disclose that interest to his or her supervisor immediately and, if applicable, in his or her annual Ethics Certification Statement.

In general, employees should neither accept nor offer gifts to customers or suppliers unless the gifts are designated as part of a recognized business event.

Gifts exceeding US $50 in value may be given or accepted only with the concurrence of an employee’s supervisor. All gifts (except minor promotional token items) not reported and approved by the employee's supervisor must be reported annually on the Ethics Certification Statement.

Records, Funds and Assets (Honeywell)

Honeywell’s financial, accounting and other reports and records will accurately and fairly reflect the transactions and financial condition of the company in reasonable detail, and in accordance with generally accepted and company-approved accounting principles, practices and procedures, and applicable government regulations.

Protecting Information (Coca-Cola)

Safeguard the Company’s nonpublic information, which includes everything from contracts and pricing information to marketing plans, technical specifications and employee information.

Outside Relationships (Eaton)

Competition—We respect the rights of competitors, customers and suppliers. The only competitive advantages we seek are those gained through superior research, engineering, manufacturing and marketing. We do not engage in unfair or illegal trade practices.

Employment Practices (Cummins Engine)

Treatment of Each Other at Work

Each employee will treat every other employee, customer, vendor and others met in the course of work with dignity and respect. Harassment of any type in the workplace will not be tolerated.
Risk. As we’ve seen, serious ethical misbehavior can threaten the very survival of an organization. Accounting fraud is a quick path to corporate bankruptcy, malfeasance in government agencies leads to budget reductions, and contributions dry up when the leaders of social service agencies and religious groups live like royalty. Managerial misconduct (whether motivated by poor judgment or criminal intent) is now a leading cause of business crises. No type of organization, be it religious, humanitarian, business, government, or military, is exempt from ethical failure.

On a more positive note, there is evidence that moral organizations can be extremely effective, as noted in the introduction. The Body Shop, Ben & Jerry’s, Tom’s of Maine, the Herman Miller Company, and ServiceMaster are highly successful as well as highly ethical. Shared values can increase productivity by focusing the efforts of employees and by encouraging supervisors to empower their subordinates. Having a good reputation attracts customers, clients, and investors and forms the basis for long-term relationships with outside constituencies.41

Ethical Weakness. Organizations can never claim to have arrived when it comes to ethical development. There will always be room for improvement. In addition, the same inconsistencies that plague individual leaders are found in the climate of entire organizations. Starbucks, which I cited earlier as a positive example, has been criticized for not paying coffee growers enough. Valuable rainforest has been destroyed in order to grow its coffee beans.

Box 9.5 (Continued)

Other Practices (PPG)

Political Activity Policy

1. Each employee is encouraged to participate in the electoral process at all levels of government by voting and supporting candidates and issues of his or her choice.

2. No employee shall, directly or indirectly, contribute or expend any of the Company’s money, property, services or other things of value for any use prohibited by laws regulating the electoral process or the political activity of corporations.

Change. Organizational leaders must recognize that they operate in constantly shifting environments. Competitors, suppliers, government regulations, and public tastes are always changing. Each change, in turn, brings new ethical challenges. Take the case of genetically altered foods. Opponents are raising moral objections to these products. They worry about their safety and their impact on the environment. Critics believe that biotechnology companies are putting the health of consumers and the future of native plants and animals at risk. Leaders of biotech companies must now publicly acknowledge and respond to these arguments.

Like the environments in which they live, organizations themselves are in a constant process of transformation. New employees join, divisions reorganize, companies become publicly owned, and products and services are added or dropped. Each change alters the ethical landscape. Consider the impact of a changing workforce, for instance. As more women and minorities join an organization, leaders need to focus more attention on diversity issues. They must consider such questions as “How do we make all individuals feel like valued team members?” “How do we ensure that everyone has an equal chance of being promoted, regardless of background?” “How far do we go to meet the needs of subgroups (working mothers, nonnative speakers, and religious minorities)?” (We’ll start to develop some answers to these questions in the next chapter.)

Enhancing Organizational Ethical Learning

Ethical development, like other forms of organizational learning, is more likely under the right conditions. Key factors that spur organizational learning and continuous ethical improvement include the following.42

Scanning Imperative. Ethical learners look outside the immediate group for information. They continually scan the environment for emerging ethical issues that might affect the organization in the future. Global warming is one such issue. In just the past few years, organizations of all kinds have had to determine how they can reduce their carbon emissions. Ongoing learners monitor newspapers and trade journals to identify questionable industry practices and consider the ethical impact of entering a new market or introducing a new product (see our earlier discussion of genetically altered foods). In addition, moral leaders look closely at what other organizations do to prevent and to manage ethical problems. Organizational learning theorists call this process benchmarking. In benchmarking, groups identify outstanding organizations and isolate the practices that make them so effective. They then adapt these practices to their own organizations.43

Information on effective ethical practices can be found in a variety of sources. You may want to draw on these as you identify ethical benchmarks. Managerial texts and business ethics books include examples of moral and
immoral behavior, sample ethics codes, and case studies. There are also two academic journals—the *Journal of Business Ethics* and *Business Ethics Quarterly*—devoted exclusively to ethics in the workplace. Information on corporate mission and values, social responsibility, academic cheating, religion and ethics, and other ethical topics can be found on a host of Web sites.

*Performance Gap.* A performance gap is the distance between where an organization is and where it would like to be. Martin Marietta is one example of an organization that recognized its ethical failings and took steps to correct them. The defense contractor, under investigation for improper billings in the mid-1980s, responded by highlighting its code of conduct, starting an ethics training program, developing a system for reporting ethical concerns, and rewarding executives for moral behavior. As a result, the company (which later merged with Lockheed) improved its compliance with federal regulations and reduced the number of ethical complaints filed by employees. The firm also prevented a number of potential crises stemming from bad management, safety problems, and discrimination.

Some organizations turn their moral failures into case studies. At West Point, Army instructors use the massacre of civilians at My Lai during the Vietnam War to teach ethical principles to cadets. Organizations don’t have to wait for an ethical disaster to strike to identify performance gaps, of course. Ethics audits (surveys that measure employee perceptions of values and corporate behavior), ethics hotlines, and focus groups track the moral climate of the group as a whole. Ethics items on performance appraisal forms provide data on individual performance.

*Climate of Openness.* Openness is, first of all, the free flow of information. In open organizations, leaders make a conscious effort to reduce barriers of all kinds between individuals and units. In this environment, new ideas are more likely to develop and then to be shared throughout the group as a whole. Learning leaders put few restrictions on what can be shared, rotate people between divisions, set up forums for sharing ideas, and form multidepartment task forces. In addition, they create formal (company-wide forums, idea fairs) and informal (employee cafeterias, celebrations) settings where members can meet and share information about projects, procedures, and ethics.

*Openness* also refers to the type of communication that occurs between group members. In learning organizations, people engage in dialogue (see Chapter 8). They recognize that they can glean important information from anyone, regardless of status. When they interact, members treat others as equals and are more interested in understanding than in being understood. They work together to create shared meaning.

Ethical dialogue can be facilitated through designated dialogue sessions. In these gatherings, members meet to engage in open communication about moral
questions. Dialogue sessions work best when attendees complete assigned readings in advance, meet in a quiet setting, convene at a round table or in a circle to emphasize equality, and suspend their opinions and judgments.44

Continuous Education. Continuous education reflects the organization-wide commitment to the never-ending process of learning. Organizations that value learning will make it a priority everywhere, not just in the training department. These groups (a) support on-the-job training (such as when an experienced worker helps a new hire resolve an ethical problem), (b) hold retreats, (c) encourage networking and dialogue, and (d) send people to conferences, classes, and workshops to learn more about ethics.

Involved Leadership. Leaders play a critical role in driving continuous ethical improvement. The key is hands-on involvement. Involved leaders are students. They encourage the learning of others by first learning themselves. If they want to promote diversity, for instance, they are the first to take diversity training. They continue to be involved in the learning process by interacting with followers, visiting job sites, and holding forums on ethical issues.

System Perspective. The system perspective refers to seeing the big picture, to recognizing that organizations are highly interdependent. Ongoing ethical learners try to anticipate the ethical implications of their decisions for those in other divisions. A big-picture leader may be tempted to “dump” an incompetent employee onto another department but recognizes that this strategy benefits her unit at the expense of another. The productivity of the organization as a whole suffers because this ineffective person is still on the payroll. With this in mind, she confronts the problem employee immediately.

The open communication climate described earlier facilitates system thinking. Communicating across boundaries helps members develop a better understanding of the ethical problems faced by other units and learn how their actions may result in moral complications for others.

Implications and Applications

• As a leader, you will serve as an ethics officer of your organization, exercising influence by the example you set for followers.
• Create a positive ethical climate that encourages moral decision making and behavior.
• Organizations have varying ethical orientations that affect their ethical decision making and behavior. Climates marked by self-interest are most likely to encourage unethical behavior.
Combat the shadow side of organizational life by creating zero-tolerance policies for incivility, aggression, sexual harassment, discrimination, and other destructive actions.

Integrity develops through clearly communicated values and commitments, leaders who are committed to these values, application of the values to routine decisions, systems and structures that support organizational commitments, and members who are equipped to make wise ethical choices.

Don't confuse compliance with integrity. Compliance protects an organization from regulation and public criticism but has little impact on day-to-day operations. Integrity is at the center of an organization's activities, influencing every type of decision and activity.

Pay close attention to how your organization achieves its goals. Failure to do so will create anomie and undermine ethical performance.

Reinforce ethical commitments in your organization through the design of monetary and nonmonetary reward systems, performance and evaluation processes, and allocation of decision-making authority.

Ethical organizations recognize their obligations to their communities, demonstrating concern for social and environmental performance. Help your organization act in a socially responsible manner by honoring your ethical obligation to stakeholder groups.

Shared values are essential to any healthy ethical climate. Help your organization identify these values through the use of task forces, employee meetings, and other means.

Useful codes of ethics can play an important role in shaping ethical climate. Make sure they define and illustrate important terms and address the problems faced by the members of your particular organization. View ethics statements as discussion starters, not as the final word on the topic of organizational morality.

Risk, lingering ethical weaknesses, and constant change create a demand for continuous organizational ethical development.

The ethical learning capacity of your organization will be determined by the presence or absence of such factors as scanning the environment, recognizing performance gaps, open communication, continuous education, involved leadership, and system thinking.

For Further Exploration, Challenge, and Self-Assessment

1. Select a well-known senior executive and determine whether this person should be classified as ethical, hypocritical, ethically neutral, or unethical. Provide evidence to support your conclusion.

2. Analyze the ethical climate of your organization. In your paper, consider the following questions: How would you classify its ethical orientation? What stage of moral development is it in? Overall, would you characterize the climate as positive or negative? Why? What factors shape the moral atmosphere? What role have leaders played in its formation and maintenance? What steps does it take to deal with misbehaviors? Does the organization consider both
means and ends? How does the group’s structure reinforce (or fail to re-inforce) espoused values and ethical behavior? What inconsistencies do you note? Write up your findings.

3. Discuss each of the following statements in a group or, as an alternative, argue for and against each proposition in a formal debate. Your instructor will set the rules and time limits. Refer to Box 8.3 (“Argumentativeness Scale”) and Box 8.4 (“Common Fallacies”) in the previous chapter for more information on constructing effective arguments.

4. Pro or con: Organizations are less ethical now than they were 10 years ago.

5. Pro or con: Formal codes of ethics do more harm than good.

6. Pro or con: Ethical businesses are more profitable over the long term.

7. Pro or con: Organizational values can’t be developed; they must be uncovered or discovered instead.

8. Pro or con: An organization’s purpose has to be inspirational.

9. Pro or con: An organization can change everything except its core values and purpose.

10. Write a research paper on one form of destructive behavior in the workplace. Conclude with suggestions to help leaders curb this type of behavior.

11. Compare and contrast an organization that has a climate of integrity with one that pursues ethical compliance.

12. Describe a time when you experienced anomie in an organization. What factors led to your feelings of powerlessness and alienation? How did anomie influence your behavior?

13. Develop a shared set of values for your class using strategies presented in the chapter.

14. Evaluate an ethical code based on chapter guidelines. What are its strengths and weaknesses? How useful would it be to members of the organization? How could the code be improved? What can we learn from this statement?
CASE STUDY 9.2

Chapter End Case:
The High Cost of Ethical Neutrality

Few leaders have risen so far and fallen so fast as former Hewlett Packard CEO Carleton (Carly) Fiorina. A medieval history and philosophy major in college, Fiorina abandoned her plans to become a lawyer after graduation and earned an MBA instead. Once she entered business, she quickly became a superstar. At AT&T she rose from a low-level sales manager to president of North American sales. When AT&T spun off Lucent Technologies, she became the new company’s leader of sales and marketing. Lucent’s revenue and stock values soared during her time there, and she was named as Fortune magazine’s most powerful female American executive in 1998.

In 1999 Fiorina was hired as CEO of technology giant Hewlett Packard, becoming the first woman to head a Dow 30 company. Fiorina was a celebrity CEO. She starred in company commercials and recruited entertainment stars such as Matt Damon, Ben Affleck, and Sheryl Crow to promote HP products. Her image appeared regularly on the cover of business magazines. She became known by her first name only, like Michael Jordan and Martha Stewart.

Carly took over an organization that had been both highly profitable and highly regarded for decades. The company went 63 years without an annual loss and was one of the first to offer employees such benefits as profit sharing, catastrophic insurance, and tuition assistance. Founders Bill Hewlett and Dave Packard created a strong ethical culture built on a set of values known as the “HP Way.” These principles included trusting employees, treating everyone with respect, sound finances, technical excellence, teamwork, thrift, humility, and hard work. However, by the late 1990s, profits dipped, and board members believed that HP had become a bloated bureaucracy. They hired Fiorina to streamline the company and improve its earnings and stock price.

Carly believed that employees who clung to company’s past and the HP Way put the company at risk. She instituted three major changes. First, she shifted priority from nurturing employees (what Bill and Dave believed was key to HP’s earlier success) to financial performance. Revenue growth and earnings became the primary focus. In one of her first meetings with her top managers, Carly interrupted a presentation to say, “Let me make something very clear. You will make your numbers. There will be no excuses. And if you can’t make your numbers, I will find someone who can.” Second, the CEO replaced Hewlett Packard’s annual profit sharing plan with an incentive program tied to reaching certain company-wide benchmarks. Salespeople, who had been salaried, now earned commissions. Third, she consolidated divisions (which had operated like independent companies in part to maintain the firm’s person-centered culture) under her authority.
Employee satisfaction plummeted, particularly after employees failed to receive any bonuses and Carly ordered the largest layoff in company history. Current and past workers rebelled when Fiorina launched merger talks with Compaq computer in 2002. They feared that Hewlett Packard's culture wouldn't be able to survive the influx of so many new workers. Fiorina prevailed in a bitter stockholder and court fight with Walter Hewlett, Bill Hewlett's oldest son, but only barely. The company's stock value and employee morale continued to drop after the merger. Carly began to fight with the HP board over future plans for reorganization and executive appointments. In early 2005 she was fired, abruptly ending her reign as the most powerful businesswoman in the United States. Mark Hurd, who focuses on operations and shuns the media spotlight, replaced Fiorina, and the firm's stock price and employee morale have rebounded.

The business and popular press blamed Fiorina's dismissal on poor execution. A dynamic, charismatic speaker, she appeared to be better at creating and selling her vision than at running day-to-day operations. However, her failure can also be explained from an ethical vantage point. Carly demonstrated all the characteristics of an ethically neutral leader. To begin, she was seen (fairly or not) as self-centered. She rarely mixed with employees and seemed to overlook the fact that her plans had human costs. (The Compaq merger meant the loss of thousands of jobs, for example.) Fiorina was quick to blame others for failure rather than take personal responsibility. Her publicity efforts and downward communication style made her appear proud, not humble.

There is evidence that Carly's single-minded focus on making the numbers undermined HP's ethical standards. Salespeople began to engage in “channel stuffing,” offering discounts or other incentives to get buyers to purchase more in the current quarter than they originally planned. This practice boosts current revenue at the expense of future sales. Similar practices contributed to the collapse of Lucent after Fiorina left for Hewlett Packard. Financial analysts, who used to consider HP a model of integrity, began to question HP's quarterly reports. Changing the reward system encouraged salespeople to focus on volume, bringing in orders on low-margin items to boost their income instead of selling more profitable products that would benefit the company in the long run. Individual rewards also undermined HP's collaborative culture, which up to that point had emphasized teamwork. Consolidating divisions increased Carly's power, making it harder for followers to question her bottom-line focus.

The most damage to Hewlett Packard's ethical reputation came after Fiorina was dismissed, although she helped set this crisis in motion. A board member leaked information on board deliberations to the press during the Compaq merger battle. Fiorina and her successor as board chair, Patricia Dunn, authorized investigations to identify the source of the leaks. Under Dunn's direction, private investigators spied on board members and obtained information about journalists under false pretenses, an illegal practice called pretexting. Dunn was forced out, and the state of California, the Securities and Exchange Commission, and Congress investigated. Charges against Dunn were dropped, but the company's former chief ethics officer and two private investigators pled guilty to misdemeanor fraud charges.
The scandal marked a new ethical low for the company. Once noted for its ethical reputation, HP now served as a bad example. The chair of the House Energy and Commerce subcommittee, which investigated the pretexting scandal, summed up the firm’s new image this way: “For the highest-ranking officials of a company like Hewlett Packard to be aware of and seemingly approve of this kind of activity I do not think speaks well of their value system or their culture.”

NOTES

DISCUSSION QUESTIONS
1. What are the dangers associated with celebrity CEOs? The advantages? Do the advantages outweigh the disadvantages?
2. Do you think Carly could have introduced major changes without undermining Hewlett Packard’s ethical values? How?
3. How can a leader focus attention on the bottom line without encouraging unethical behavior?
4. How much blame do you assign to the Hewlett Packard board for what happened during Fiorina’s tenure as CEO?
5. Can you think of other examples of ethically neutral leaders? What impact did they have on their organizations?
6. How can the leaders of Hewlett Packard restore the company’s ethical reputation?
7. What leadership ethics lessons do you take from this case?

SOURCES

See also:
CASE STUDY 9.3
Chapter End Case: Agenda for Change at the Air Force Academy

U.S. service academies attract many of the nation’s top high school students who hope to become the next generation of military leaders. Cadets are nominated by members of their congressional delegations and must be fit as well as smart. Once enrolled, they combine strenuous physical training with a demanding academic program. Plebes pledge to follow stringent honor codes that prohibit such behaviors as drinking, drug use, cheating, and breaking curfew.

Unfortunately, would-be leaders at the service academies don’t always live up to their lofty reputations or follow the codes of ethics of their institutions. Nowhere is this more apparent than at the Air Force Academy. In 2002, current and former female cadets approached Colorado congressional representatives and the Air Force with complaints that academy officers mishandled charges of sexual assault. Not only did officials fail to prosecute the rapists, these women claimed, but also those who filed reports were punished for minor rule infractions. Investigations were shoddy, with complainants facing retribution from their immediate superiors and shunning by fellow plebes. In some cases, the victims dropped out of school while the offenders were promoted.

Allegations of widespread sexual crimes against women sparked three investigations and led to the replacement of top academy officials. Investigators found that the academy had been a hostile environment for women since female cadets were first admitted in 1981. The academy was male dominated, showed little concern for the welfare of female officers, and seldom put women in leadership positions. Retention rates for female cadets were lower, even though women on average had higher grades than their male counterparts. For years, a sign reading “Bring Me Men” greeted visitors to the school. In addition, the problem of sexual assault was widespread. Fifty-six cases were investigated in one 10-year period, with many more going unreported. Victims were fearful that they would find their Air Force careers cut short if they came forward. Top officials were unaware that abuse was so pervasive.

The Air Force took a number of steps called the “Agenda for Change” to root out sexual crime at the academy and to restore the school’s luster. In addition to removing top officials, the academy took down the offensive “Bring Me Men” sign and renewed its emphasis on character. Colonel Debra Gray was named vice commandant, making her the first woman to occupy a top spot at the academy. (She has since retired.) Minor infractions are now covered by a “blanket amnesty.” This means, for example, that a victim won’t be punished for drinking if the rape took place at a drinking party. Fliers advertise a sexual assault hotline that cadets can call at any hour of the night or day to seek advice, ask questions,
or report sex crimes. Victims are assigned an advocate and receive immediate medical care and counseling. If the victim reports the incident to authorities, she is assigned two advisors to help her through the system.

The centerpiece of the Agenda for Change is an aggressive training and prevention program. Cadets receive 70 hours of education about sexual assault, harassment, accountability, and substance abuse, training that begins immediately after they arrive on campus. Each squadron has a representative who trains fellow cadets and polices potentially harassing behavior.

The Agenda for Change appears to be having a positive impact. A follow-up Department of Defense survey found that fewer women reported being sexually harassed or assaulted at the Air Force Academy than at West Point or the Naval Academy. Women at the Colorado Springs campus said that they were much more likely to report such behaviors and were less fearful of reprisal. They also noted that the environment for women had improved. Nevertheless, sexist behavior is still a problem at all the academies. Most female cadets surveyed said that they had experienced crude and offensive behavior.

DISCUSSION PROBES

1. Should we expect cadets at service academies to behave more ethically than students at other colleges or universities? Is such an expectation realistic?
2. Cadets at the Air Force Academy are in violation of the honor code if they fail to report violators. Is this requirement ethical?
3. Do you blame top leaders for being unaware of the extent of the sexual assault problem on a campus? Why or why not?
4. How well is your campus dealing with issues of sexual harassment and assault? What additional steps should be taken?
5. Why do you think the Agenda for Change is working? Are there elements of the agenda that could be adapted for use on your campus?
6. What more needs to be done at the academies to reduce sexist behavior?
7. What leadership ethics lessons do you take from this case?

SOURCES

Notes


13. A number of authors use the term integrity to describe ideal managers and organizations. See the following:


26. Information on the social responsibility audit called “Living Our Values” can be found on the Starbucks Web site.


32. Kuczmarski & Kuczmarski.


