Chapter 4
THE CORPORATE CULTURE—IMPACT AND IMPLICATIONS

CHAPTER OBJECTIVES

• After exploring this chapter, you will be able to:
  1. Define corporate culture.
  2. Explain how corporate culture impacts ethical decision-making.
  3. Discuss the differences between a compliance culture and a values-based culture.
  4. Discuss the role of corporate leadership in establishing the culture.
  5. Explain the difference between effective leaders and ethical leaders.
  6. Discuss the role of mission statements and codes in creating an ethical corporate culture.
  7. Explain how various reporting mechanisms such as ethics hotlines and ombudsmen can help integrate ethics within a firm.
  8. Discuss the role of assessment, monitoring, and auditing of the culture and ethics program.
  9. Explain how culture can be enforced via governmental regulation.
WHAT IS CORPORATE CULTURE?

• A shared pattern of beliefs, expectations and meanings that influence and guide the thinking and behaviors of the members of that organization.
  ➢ It shapes the people who are members of the organization.
  ➢ It is also shaped by the people who comprise it.
  ➢ If you join a firm with a culture that supports other values than those with which you are comfortable, there will be values conflicts, for better or worse.
  ➢ No culture, in business or elsewhere, is static.

FIGURE 4.1

[Diagram showing the relationship between culture and members of the culture, indicating that culture shapes members and members shape culture.]
WHAT IS CORPORATE CULTURE?

- A firm's culture can be its sustaining value – that which offers it direction and stability during challenging times.
- The culture can, however, also serve to constrain an organization in the common ways of managing issues
  - “That’s how things have always been done here.”
  - “That’s our prevailing climate.”
- The stability that can be a benefit at one time can be a barrier to success in another.

DEFINING A CULTURE DEFINES THE CULTURE, WHICH DEFINES THE CULTURE

- The definition of a culture is partially based on:
  - Each participant's perception of the culture, which impacts the culture in a circular way.
    - A culture exists, we perceive it to be a certain type of culture, we respond to the culture based on our perception and we thereby impact others' experience of the culture.
- Culture is present in the following elements:
  - Tempo of work
  - The organization's approach to humor
  - Methods of problem-solving
  - The competitive environment
  - Incentives
  - Individual autonomy
  - Hierarchical structure
CULTURE AND ETHICS

• **An ethical culture:** One in which employees are empowered and expected to act in ethically responsible ways even when the law does not require it.

• A corporate culture sets the expectations and norms that will determine which decisions get made.

• Two organizations with similar missions, rules, and legal regulations can have significantly different cultures.

CULTURE AND ETHICS

• **Decision-making:** It is easy to think in terms of a rational, deliberative process in which a person consciously deliberates about and weighs each alternative before acting.

• **Virtue ethics:** But the virtue ethics tradition reminds us that our decisions and our actions are very often less deliberate than that.

• Where do we get our habits and character?
  - We can choose to develop some habits rather than others.
  - Our habits are shaped and formed by **culture**.
LINKING CULTURE TO SUSTAINABILITY

• An ethical culture can also have a direct and practical impact on the bottom line.
  ➢ If attended to and supported, a strong ethical culture serves as a deterrent to stakeholder damage and improve bottom line sustainability.
  ➢ If ignored, the culture could instead reinforce a perception that “anything goes,” and “any way to a better bottom line is acceptable,” and destroys long-term sustainability.

COMPLIANCE VS. VALUES-BASED CULTURES

• Compliance-based cultures (the traditional approach)
  ➢ Emphasize obedience to the rules as the primary responsibility of ethics.
  ➢ Empower legal and audits offices to mandate and monitor compliance with the law and with internal codes.

• Values-based or integrity-based cultures
  ➢ More flexible and far-sighted corporate environments
  ➢ Reinforce a particular set of values rather than a particular set of rules.
  ➢ Values-based organizations have codes of conduct; codes are rooted in a statement of values and it is presumed that the code includes mere examples of the values’ application.

❖ The distinction between compliance-based and value-based cultures is best applied in accounting and auditing situations, but it can also be used more generally to understand wider corporate cultures.
Table 4.1 - The Evolving Role of Compliance Programs into Values-Based Programs

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<td>Methodology: Focus on goals, strategies and risk management processes</td>
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VALUES-BASED CULTURES

- The argument in favor of a values-based culture:
  - A compliance culture is only as strong and as precise as the rules with which workers are expected to comply.
  - A firm can only have a certain number of rules and the rules can never unambiguously apply to every conceivable situation.
- A values-based culture recognizes that where a rule does not apply, the firm must rely on the personal integrity of its workforce when decisions need to be made.
DIFFERENCES IN GOALS

• The goals of a traditional compliance-oriented program may include:
  ➢ Meeting legal and regulatory requirements.
  ➢ Minimizing risks of litigation and indictment.
  ➢ Improving accountability mechanisms.

• The goals of a more evolved and inclusive ethics program may entail a broader and more expansive application to the firm, including:
  ➢ Maintaining brand and reputation.
  ➢ Recruiting and retaining desirable employees.
  ➢ Helping to unify a firm’s global operations.
  ➢ Creating a better working environment for employees.
  ➢ Doing the right thing in addition to doing things right.

ETHICAL LEADERSHIP AND CORPORATE CULTURE

• If the goal of corporate culture is to cultivate values, expectations, beliefs, and patterns of behavior that best and most effectively support ethical decision-making, it becomes the primary responsibility of corporate leadership to steward this effort.

• Beyond personal behavior, leadership sets the tone through other mechanisms such as the dedication of resources.
  ➢ Ethical business leaders allocate corporate resources to support and promote ethical behavior.

• For example, when ethics officers were first introduced to the corporate structure in the early 1990’s, a clear indication of their relevance and influence within the organization was reflected in the extent to which they were supported financially. It was clear that ethics was not a priority if the general counsel served as the ethics officer “in their spare time,” and no additional resources are allocated to that activity. To the contrary, ethics may hold a different position in the firm if a highly skilled individual is hired into an exclusive position as ethics officer and is given a staff and a budget to support the work required. Similarly, if a firm mandates ethical decision making from its workers through the implementation of a code of conduct, extending the same standard for its vendors, suppliers, and other contractors is a symbol of how seriously the firm takes the code.
LEADERSHIP: SETTING THE CULTURAL TONE AS AN “ETHICAL LEADER”

- Research shows that:
  - It is critical that the leader is perceived as having a people-orientation, as well as engaged in visible ethical action.
  - Important traits - Receptivity, listening, openness, integrity, honesty, and trustworthiness.
  - Being perceived as having a broad ethical awareness and concern for multiple stakeholders, and using ethical decision processes.
  - Ethical leaders do many of the things traditional leaders do, but they do that within the context of an ethics agenda.
  - People perceive that the ethical leader's goal is not simply job performance, but performance that is consistent with a set of ethical values and principles.
  - Ethical leaders demonstrate caring for people in the process.

THE ETHICAL LEADER

- Making courageous decisions in tough situations represents a way in which ethical leaders get noticed.
- If an executive is “quietly ethical” within the confines of the top management team, they are not likely to be perceived as an ethical leader.
EFFECTIVE LEADERSHIP AND ETHICAL, EFFECTIVE LEADERSHIP

• How can we distinguish between effective leaders and ethical leaders?
  ➢ Effective leaders achieve their goals through threats, intimidation, harassment and coercion.
  ➢ Ethical leaders lead using more amenable interpersonal means such as modeling ethical behavior, persuasion, or using the impact of one's institutional role.

• The other element of ethical leadership involves the end or objective towards which the leader leads.
• Ethical leadership embodies: utilitarianism and deontological frameworks.

THE ENDS OF ETHICAL LEADERSHIP

• In business context, productivity, efficiency, and profitability are minimal goals in order to be sustainable.

• An executive who transforms a business into a productive, efficient, and profitable business will be judged as an effective business leader.
• But, is profitability and efficiency done through ethical means alone enough to make a business leader an ethical leader?
• Imagine a business leader who empowers his subordinates, respects their autonomy by consulting and listening, but who leads a business that publishes child pornography, or pollutes the environment, or sells weapons to radical organizations. Would the method alone determine the ethical standing of such a leader? Beyond the goal of profitability, other socially responsible goals might be necessary before we conclude that the leader is fully ethical.
BUILDING A VALUES-BASED CORPORATE CULTURE

- One of the key manifestations of ethical leadership is the articulation of values for the organization.
- It is the leader’s responsibility to ensure that the firm is guided by some set of organizing principles that can guide employees in their decision-making processes.

CODE OF CONDUCT

- It is a statement of values.
- Before affecting the culture through a code of conduct, a firm must first determine its mission so that decision makers have direction when dealing with dilemmas and other ethical challenges.
- In the absence of other values, the only value is profit – at any cost.
  - A firm sends a clear message that a worker should do whatever it takes to reap profits.
  - A code of conduct delineates this foundation both for internal stakeholders and external stakeholders.
- The code has the potential to:
  - Enhance corporate reputation.
  - Provide concrete guidance for internal decision-making.
  - Creating a built-in risk management system.
- The introduction of a corporate code of conduct by an employing organisation is aimed at individual employees. Such codes are the result of a ‘top-down initiative’, with very little, or no, involvement from non-senior managerial staff. These codes tend to be statements of how employees are required to behave by the company/senior management.
Codes of conduct and codes of ethics

• Codes of conduct tend to be instructions, or sets of rules, concerning behaviour. As a result, they are likely to be reasonably prescriptive (regulatory, dogmatic) and prescriptive (intolerant, conservative) concerning particular aspects of the employee behaviour. They identify specific acts that must be either adhered (stick, hold) to (prescription), or avoided (proscription). However, the extend to which all possible situations can be addressed within a code of conduct is problematic.

• Codes of ethics refer to a company's written standards of ethical behavior that are designed to guide managers and employees in making the decisions and choices they face every day. They tend to be reasonably general in their tenor, encouraging employees to display particular characteristics such as loyalty, honesty, objectivity, probity (goodness, honesty), and integrity. They do not normally address specific types of decisions; rather they encourage the application of what might be called ‘virtues’. While notions of honesty and integrity remain fairly constant over time, concepts such as justice and loyalty are more contentious (controversial, debatable).

From these definitions it is evident that, where all possible scenarios that an employee might face can be predicted with a high degree of confidence, then a specific code of conduct might be possible. However, where the likely scenarios that an employee might face cannot be predicted in the requisite (necessary) detail, then reference to general qualities and principles will be preferred, i.e. codes of ethics become more appropriate.

The purposes of codes of conduct and ethics

There are eight roles for corporate codes. These are:

i. **Damage limitation** – to reduce damages awarded by courts in the event of the company being sued for negligence by one of its employees.

ii. **Guidance** – the ‘reference point’ role. An aide-memoire (reminder) for employees when faced with an ethically complex situation.

iii. **Regulation** – this is the prescribing and proscribing roles that will stipulate specific qualities that are essential, e.g. independence, objectivity, etc., or acts that are prohibited.

iv. **Discipline and appeal** – this is the role of a code as a benchmark for an organisation or professional body to decide whether an employee/member has contravened (be in breach of, disregard) required conduct and what form of punishment might ensue (result, follow). In addition the code can form the basis of an appeal by the accused.

v. **Information** – a code expresses to external audiences standards of behaviour that can be expected of employees/members.

vi. **Proclamation** (public statement, announcement) – this has echoes of ‘information’, but it relates more to the role of codes of conduct developed by professional bodies. To achieve ‘professional’ status trade associations are normally required to assuage (moderate, relax) public concerns over the granting of monopoly rights to specific areas of commercial/social activity (e.g. auditing, doctoring). Ethical codes will attempt to reassure that these monopoly powers will not be abused.

vii. **Negotiation** – codes can be used as a tool in negotiations and disputes with and between professionals, colleagues, employers, governments, etc.

viii. **Stifling** (suppress, restrain) – this is the creation of internal procedures for handling the ethical concerns of employees that are more concerned with management keeping a lid (cover, closure, control) on internal dissent (disagreement, dispute) that acting as a conduit (channel) for internal debate and examination.
MISSION STATEMENT

• Serves as an articulation of the fundamental principles at the heart of the organization.
• Guides all decisions, without abridgment.
• No decision should ever breach the underlying mission as an ultimate dictate.

DEVELOPING THE MISSION AND CODE

• Ask yourself: What do you stand for? or What does the company stand for?
• Articulate a clear vision regarding the firm’s direction.
• Identify clear steps as to how this cultural shift will occur.
• The organization should believe that this culture is possible and achievable.
CULTURE INTEGRATION

• Integrating an ethical culture throughout a firm and providing means for enforcement is vitally critical both to the success of any cultural shift and to the impact on all stakeholders.

• Integration can take a number of different forms, depending on:
  ➢ The organizational culture.
  ➢ The ultimate goals of the process.

• One of the most determinative elements of integration is communication, without it, there is no clarity of purpose, priorities or process.

• To explore the effectiveness of a corporation's integration process, consider:
  ➢ Whether incentives are in the right place to encourage ethical decision making.
  ➢ Whether ethical behavior is evaluated during a worker's performance review.

CULTURE INTEGRATION - WHISTLEBLOWING

• **Whistleblowing**: Disclosure of unethical or illegal activities to someone who is in the position to take action to prevent or punish the wrongdoing.
  ➢ It can expose and end unethical activities, but it can also seem disloyal, it can harm the business, and it can extract significant costs on the whistleblower.

• Whistleblowing can occur internally or externally.

• Since, external whistleblowing can be so harmful to both the whistleblower and to the firm itself, internal mechanisms for reporting wrongdoing are preferable for all concerned.
WHISTLEBLOWING

Whistleblower
- An employee who discovers corporate misconduct and chooses to bring it to the attention of others.

Internal Whistle-blowing
- When an employee discovers corporate misconduct and brings it to the attention of his supervisor, who then follows established procedures to address the misconduct within the organization.

External Whistle-blowing
- When an employee discovers corporate misconduct and chooses to bring it to the attention of law enforcement agencies and/or the media.

Effects of whistleblowing
- The personal outcomes experienced by many whistleblowers have been damaging, whether the outcomes are considered at a psychological, financial or social level. Loss of employment is common for whistleblowers, with opportunities to gain alternative employment often limited. Some whistleblowers have become unemployable as their names have been circulated among employing organisations as ‘troublemakers’.
- The whistleblower and his or her family often experience great financial and emotional hardship, with break-ups in marriages or partnerships frequently reported. Suicides of whistleblowers have also been attributed to the financial and psychological fallout from their whistleblowing experiences. However, not all whistleblowing cases end in such unhappiness, i.e. Sherron Watkins at Enron.
- Many times the whistleblower is faced with some hostility from his or her colleagues. It must be recognised that the revelation of an organisational malpractice risks damaging the employing organisation’s share price and standing in its various product or service markets. This could place jobs at risk, the jobs of one’s work colleagues and perhaps their pension funds.
- Having all these in mind, is the act of whistleblowing justified? Should it be encouraged? (a virtue ethics or Kantian oriented person would be favourable towards whistleblowing while a person with consequentialist orientation would be less likely to favour whistleblowing)
When might whistleblowing be justified?

- De George (1999) argued that there are six conditions that make whistleblowing acts justifiable. They are:
  1. A product or policy of an organisation needs to possess the potential to do harm to some members of society.
  2. The concerned employee should first of all report the facts, as far as they are known, to their immediate superior.
  3. If the immediate superior fails to act effectively, the concerned employee should take the matter to more senior managers, exhausting all available internal channels in the process.
  4. The prospective whistleblower should hold documentary evidence that can be presented to external audiences. The evidence should show that the product or policy poses a serious and likely danger to the public or to the user of the product (De George, 1999).
  5. The prospective whistleblower must believe that the necessary changes will be implemented as a result of their whistleblowing act.
  6. The sixth condition is a general one and it is that the whistleblower must be acting in good faith, without malice (hatred, cruelty) or vindictiveness.

- Conditions (2) & (3) should be considered together because of their linkage that organisations should view internal whistleblowing procedures as important mechanisms within their corporate governance processes. It might seem common that organisations would wish to be informed about practices that threaten the well-being of their customers, or the public at large since reputations and brands can take years and considerable expenditures to build, but be destroyed in a very short time by negative publicity. Thus, enlightened self-interest would seem to dictate an interest in encouraging internal whistleblowing.

Assessing and Monitoring the Corporate Culture

- If we cannot measure, assess, monitor culture, it is difficult to encourage others throughout the organization to pay attention to it.
- Monitoring and an ongoing ethics audit allow organizations to uncover silent vulnerabilities that could pose challenges later to the firm, serving as a vital element in risk assessment and prevention.
ASSESSING AND MONITORING THE CORPORATE CULTURE

• Signs of a potentially damaging or ethically-challenged corporate culture – referred to as a “toxic” culture:
  ➢ Lack of any generally accepted base values for the organization, as discussed above.
  ➢ How does the firm treat its customers, suppliers, clients, workers?
  ➢ The management of its internal and external relationships.
  ➢ How does the firm manage its finances?

• A firm can be in a state of financial disaster without engaging in even one unethical act (and vice versa), but the manner in which it manages and communicates it financial environment says it all.

❖ Review Questions

1. Define corporate culture and differentiate between compliance-based and value-based cultures.

2. Define the codes of conduct and the codes of ethics and discuss their purposes.

3. Define “whistleblowing” and discuss the possible effects of whistleblowing on the employee.

4. Explain the conditions under which whistleblowing might be justified.