PROMOTING ETHICAL PRACTICES AND ESTABLISHING A STRONG ETHICAL CULTURE IN BUSINESS ORGANIZATIONS

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ABSTRACT

This paper examines research focusing on the ethics of business managers The paper proposes a number of practical steps that can be implemented by organizations to promote ethical practices and establish a strong ethical culture.

INTRODUCTION

The ethical standards and social responsibilities of managers have been two of the principal issues confronting business and society for many years. Of particular interest to educators, practitioners, and regulators is the extent to which businesses are responsive to the expectations of shareholders and society. While businesses have always been responsible for maximizing long-term value for the shareholders, they are increasingly expected to recognize the importance of their responsibilities toward society and to faithfully adhere to certain ethical standards.

HISTORICAL PERSPECTIVE

Writers and philosophers have long been interested in business ethics or, as many classicists called it, "justice" (Cavanagh et al., 1981). Business ethics as an academic field has a more recent history. Research on business ethics began in earnest three decades ago. It emerged principally due to the efforts of Archie Carroll. Until that time, business ethics was little more than an obscure debate among some scholars, philosophers, and theologians. In his seminal article on the obligations of business toward society, he suggested that total corporate social responsibility consists of four distinct components: economic, legal, ethical, and discretionary concerns (1979). Carroll contends that these four dimensions address the entire spectrum of obligations business has to society.

MANAGERS' ETHICS

One of the earliest calls for investigating the ethics of managers and executives was an article by Raymond Baumhart in 1961 aptly titled: "How Ethical is Business?" When he presented managers with some hypothetical situations, he found important differences between what they said they would personally do and what they thought the average manager would do. That is, business executives tended to attribute significantly higher ethical standards to themselves than they did to their associates. He concluded that actual business practices are likely to be closer to what these managers said the "average" business person does than to what they said they would personally do.

Similar results were obtained by Newstrom and Ruch (1976). They found that managers rated their colleagues to be more unethical than they themselves claimed to be. These same managers, however, had a propensity to capitalize on opportunities to be unethical, if those situations arose. This view was later supported by Fritzsche and Becker (1984) who reported that decision makers show a pragmatic orientation when presented with ethical dilemmas and are "likely to take action that would pollute the environment when a competitive advantage could be gained" (p. 174). When one generation of business managers was compared with another, Brenner and Molander (1977) found that "ethical standards have...fallen in business so that practices once considered unethical are now not viewed as such" (p. 60). A decade later, Longenecker et. al (1989) reached a similar conclusion. They noted that younger managers are more permissive than older ones in what they accept as ethical behavior.

A related stream of research is in response to calls by a number of writers for the study of a person's demographic characteristics as antecedent variables. As increasing numbers of women enter business schools and assume managerial and executive positions, the ethics literature has recognized the value of incorporating the gender dimension in particular into ethics research. Thus a number of researchers have examined differences and commonalities of responses based on gender.

In their study of 1,875 business people, Weeks et. al (1999) found that females assumed a stricter ethical stance than their male counterparts on 7 out of 19 vignettes. Males, on the other hand, adopted a more ethical stance on 2 out of 19 vignettes. Kidwell et al. (1987) concluded that female managers were more ethical for one of seventeen situations. Interestingly, they reported that, when asked to estimate the ethics of the opposite sex in each of the situations, respondents almost universally perceived the opposite sex to be more unethical than themselves. When Harris (1990) examined ethical values of individuals at different levels in the organizational hierarchy, he found that females were more ethical for one of five dilemmas that were presented to them. Similarly, Simga-Mugan et al. (2005) reported that gender does have a significant impact on ethical sensitivity and Deshpande et al. (2000) found that compared to male managers, female managers perceive questionable business practices as more unethical. However, a study by Barnett and Karson (1989) found that, among business executives, gender had no impact on ethical beliefs. Also, a more recent study of senior executives found no significant differences between the genders regarding their ethical preferences (Das, 2005).

Other studies have sought greater homogeneity among the respondents by focusing on practitioners within certain business areas. The overall findings have been inconclusive. For example, in a study of marketing professionals that used scenarios to measure a person's ethical score, Akaah and Riordan (1989) reported that females had higher scores for 3 of 11 scenarios. When practicing accountants were surveyed by David et al. (1994), males rated 3 of the 12 components of the AICPA's "Code of Professional Ethics" as more important than did females. When ethical differences in the sales profession were studied, Dawson (1997) concluded that females were more likely to agree that behaviors described in twenty scenarios were unethical. Amore recent study (Lund, 2007) of marketing professionals found that females demonstrated significantly higher ethics judgment than their male counterparts. Among insurance employees, Serwinek (1992) reported that females were more ethical for one of the four factors that were examined. On the other hand, two recent studies of accountants (Jones & Hiltebeital, 1995; Radtke, 2000) concluded that no significant differences between the genders regarding the appropriateness of ethical conduct. Similar results were obtained by Browning and Zabriskie (1983). In their study of industrial buyers, they found no significant differences between men and women. A meta-analysis conducted by Jaffee and Hyde (2000) did not find any gender-based differences in moral orientation.

TOWARD IMPROVING ETHICAL BEHAVIOR

A classic quotation states: "Ethical business is good business." Several steps can be implemented to promote ethical practices and establish a strong ethical culture. Each of these, individually, will not have much of an impact but when all or most of them are applied as part of a comprehensive program, they can greatly improve an organization's ethical climate.

The organization's selection process (interviews, tests, background checks, references, etc.) should be used to weed out ethically undesirable applicants. Although this is not a simple task, particularly for entry-level positions, it is much easier to administer for upper-management positions since more is known about them because of their longer professional lives and the availability of a "paper trail". Various tests have been developed to assess job candidates' trustworthiness, honesty, and integrity (Sackett and Wanek, 1996).

Codes of ethics are an increasingly popular way for reducing ambiguity. These are formal documents, expressed in language anyone can understand, that state an organization's primary values and the ethical rules and principles it expects its employees to follow. They help a business to show to all internal and external constituents the standards that govern its conduct. Codes of Ethics are probably the most visible sign of a company's ethical philosophy. They are particularly helpful when an individual's self-interest is incompatible with acting in accordance with his or her ethical standards. However, it must be remembered that they have limits because they cannot anticipate every situation that may arise. In some cases, codes of ethics are principally public relations statements. Their effectiveness depends heavily on whether they are current and robust and on how employees who break the codes are treated. Most importantly, they require management's explicit and unequivocal support (Paine et al., 2005).

Business scholars and ethicists have developed frameworks for ethical decision making (Bastons, 2008). They consist of a series of chronological steps that guide a person facing an ethical dilemma. Unfortunately, many decisions involve "gray areas," where there are no apparent solutions. In these cases, the recommended maxim is: "When in doubt about an action to be taken, don't do it."

There must be a high degree of commitment to business ethics from top management. They set the tone; they are the role models in terms of words and actions. Managers must embrace ethics and continually reaffirm their support for ethical conduct (Aguilar, 1994). A number of writers contend that ethical behavior is an important component of leadership (Morgan, 1993), and that the perceived ethical standards of a leader can affect the ethics of subordinates (e.g., Fulmer, 2004; May et al., 2003). Ambrose and Schminke (1999) argued that "the greatest influence on an individual's ethical behavior may be the ethical behavior of one's immediate supervisor" (p. 469).

Perceptions of poor leader ethics might promote unethical behaviors among subordinates in at least two ways. First, subordinates that perceive the behaviors of leaders to be unethical might act unethically themselves in order to retaliate. A number of studies (e.g., Fisher & Baron, 1982; Greenberg & Scott, 1996) have concluded that employees often feel justified in engaging in unethical behaviors when they believe that their leaders have acted unethically toward them. Second, the behaviors of leaders often set precedents for employee behaviors (Kemper, 1966). The employees will believe that unethical behaviors are tolerated in their organization and may, therefore, act less ethically than they otherwise would.

A recent development in the study of leadership and ethics is a focus on authenticity among leaders. Authentic leaders are "transparent with their intentions [and have] a seamless link between their espoused values, actions, and behaviors" (Luthans and Avolio, 2003, p. 242). They are aware of their values and beliefs concerning what is or is not ethical and behave in ways that are consistent with those values and beliefs (Harter, 2002). These leaders can create a climate of authenticity in which all members of an organization are empowered to behave in ways they feel are ethical (May et al., 2003).

Employee goals must be reasonable and capable of being accomplished. Goals which are impossible (set too high) to attain can be conducive to unethical behavior. The use of goal-setting to place unreasonable pressures on employees can have the unintended side effect of encouraging performance misrepresentation by the employees. In addition, goal-setting techniques could promote unethical behaviors if adequate controls are not used. Those who fail to achieve a pre-set goal by a small margin are likely to falsify their performance reports in order to make it seem that they had achieved their goals even when there was no monetary reward for achieving the goal (Schweitzer et al., 2004).

Many organizations are setting up seminars and workshops in ethics training. Typically, their code of ethics is used as a guide or standard. The purpose of such training is to sharpen the written ethical code, demonstrate its relevancy, and bring it to life (Valentine and Fleischman, 2008). Unfortunately, much of ethics training is little more than "admonishment" or "lecturing". Ethics training is more effective when it involves a discussion of real-life ethical issues or dilemmas commonly encountered on the job, followed by an exploration of the various actions that can be taken, and who and what will be affected (positively and negatively) by each alternative. The intent is to raise the consciousness of the participants, to show that "there is more than one alternative", and discuss the probable consequences of each course of action. Ethics training is "perishable" because individual and organizational memories are imperfect. Therefore, regular refresher courses are necessary.

An organization's culture sets the norms that guide employees' behaviors. Employees of organizations characterized by a strong ethical climate tend to feel a greater responsibility to act in ways that conform to ethical standards than employees that work in a relatively unethical climate (Victor and Cullen, 1988). According to Social Cognitive Theory (Bandura, 1997) employees often learn certain behaviors vicariously through observation and modeling. Thus, a culture's norms might promote unethical behaviors among existing employees, while the social learning process might facilitate the adaptation of these behaviors by new employees.

Working conditions characterized by high levels of stress and rigid and/or unfair rules can cause employees to blame external factors for their problems at work. This might then promote the use of unethical behaviors such as theft or violence toward the external stimuli (e.g., supervisors, co-workers, etc.) as a form of retaliation (Martinko et al., 2005).

A comprehensive performance appraisal should focus on "economic" outcomes but also should consider whether the means for reaching those outcomes were ethical. An organization which requires its managers and employees to uphold high ethical standards must incorporate the means (the "how") into its appraisal system. A central question should be: "How does your decision compare to our code of ethics?" (see Lovicky et al., 2007).

Research on organizational justice and equity theory indicates that individuals who perceive that they are under-compensated are often able to justify unethical reactions such as reducing the quality and quantity of their efforts (Skarlicki & Folger, 1997).

Rewarding unethical activities encourages and reinforces unethical behavior among employees. Individuals will generally adopt behaviors if they witness other people successfully using them to obtain valued rewards Bandura (1978). Thus, if an organization's members are rewarded for using unethical behaviors, their co-workers might adopt such behaviors as well. Similarly, expectancy theory (Vroom, 1964) predicts that individuals will act in ways that they believe will result in the obtainment of valued rewards. Thus, if employees are made to believe that they will be rewarded, and not punished, for the use of unethical behaviors, such behaviors may occur frequently.

An independent social audit that evaluates decisions and management practices in the areas of ethics and social responsibility increases the probability of identifying unethical behavior and, subsequently, taking remedial measures. Similarly, programs of social responsibility should be reviewed for effectiveness. These audits can be performed at regular intervals (as one would do with financial statements), or at random (with no prior announcement), or both. The auditors should present their findings directly to the Board of Directors (see Gond & Herrbach, 2006).

The board's role of paramount importance. They are the shareholders' representatives and bear the ultimate responsibility for supervising management's performance. As overseers of a firm's strategic decisions, they have a clear obligation to conduct themselves in an ethical manner and ensure that the organization promotes and maintains the highest standards of ethical behavior (Minkes et al., 1999). However, there is general agreement among organizational researchers, governance experts, and business executives that, traditionally, boards have tended to simply legitimize proposals from corporate executives. Harold Geneen, the former CEO and Board Chairman of ITT, estimated that, among the boards of directors of *Fortune* 500, 95% are not doing what they are legally, morally, and ethically obligated to do (Geneen, 1984).

Nevertheless, there has been a heightened interest in recent years in ensuring that the activities of the board are conducted with integrity and adherence to the highest ethical standards. Many businesses have adopted codes of ethics for their directors and specified that the primary duty of board members is to oversee the CEO and other senior management in the competent and ethical operation of the corporation (Schwartz et al., 2005).

CONCLUSION

The terms “business ethics” and “corporate social responsibility” have become firmly entrenched and an established part of our vocabulary. The concern for ethics in business continues, and all evidence points to a growing emphasis on business ethics in the future. The many high-profile scandals have added urgency to this issue. The public is constantly reminded of the important role business decisions play in their lives and, consequently, expects a business to exhibit a very high degree of ethical performance. Managers' real challenge is to treat ethics as a corporate asset by creating an environment that develops, sustains, and advances an unambiguous commitment to ethical behavior. When fully integrated into the organizational culture, the moral fabric created will have a potent and durable influence on day-to-day behavior.

In conclusion, business ethics is neither “a frivolous, transient, fanciful fad” nor “a temporary, utopian, impractical notion” as some declared early on. Certainly, it is not, as others allege, an oxymoron. It is a vibrant, potent, and complex undertaking developing on many levels.

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