EFFECTS OF ORGANIZATIONAL CULTURE ON BUSINESS ETHICS: A CONCEPTUAL STUDY

1Didem ENGİNOĞLU, 2Cenk Laçin ARIKAN

1Lecturer (PhD.), Program of Business Administration, Gediz University, Izmir, Turkey
2Asst. Prof., Department of Business Administration, Gediz University, Izmir, Turkey
E-mail: 1didem.enginoglu@gediz.edu.tr, 2jacin.arikan@gediz.edu.tr

ABSTRACT

There is a growing interest in business ethics over the past several decades both in professional life and in academia. This is evident in the increase in the number of companies using ethical codes. In the near future this trend is expected to be more so in emerging countries and in companies of all sizes. Thus, the significance of the issue is on the rise. Since organizational culture is unique to each organization, the need for clarification of its effects on business ethics practices is critical. Researchers report varying degrees of influence of business ethics practices on company performances. In this regard, ethics is no longer an area of interest just for the sake of it but also with its direct and indirect influence on measurable company performance levels. In the increasingly global and highly competitive contemporary business environments companies in all sectors, in the coming years, are expected to be even more affected from business ethics or lack there of. With this conceptual study, we provide a modern view and a thorough analysis of all major relevant constructs and hopes to highlight an insightful perspective as to the future of companies and professionals alike.

Keywords: Organizational culture, business ethics, corporate ethical culture, business performance, ethical business practices.

1. INTRODUCTION

Ethical business practices are praised ever more in today’s business environment. However, Andrews and Hunt (2011) assert that certain gaps in the form of “deceptive advertising, high-pressure selling, unsafe products, irresponsible use of credit cards, bribes, unsafe working conditions” (p.5) occur between what is said and what is actually practiced in daily business life. We can extend the examples to well-known popular ethical cases like Ford Pinto’s security issues, VW’s emission results, BP’s oil spillage case, etc. The examples, although all of which come from large companies, depict the extent to which such unethical behavior can have drastic effects on the companies, employees, the society, and the environment in general.

Organizational culture has been regarded as an important determinant of ethical behaviors of managers. A comprehensive study by Christie et al. (2003) indicates how national cultures also have great and significant impact on ethical attitudes of professionals. Literature on these constructs frequently touches upon corporate social responsibility issues as well. Erwin (2011) emphasizes how ethical code differs from company to company in terms of content and how they affect ethical performance of those companies. Sustainable and ethical business practices are dependent on finding those values that are already existing in the corporate culture. Imposed ethical codes that are rootless in the sense that values of the company are not fully and truly supporting such policies are destined not to work effectively.

In trying to determine the major factors behind the effectiveness of corporate codes of ethics, Singh (2011) has conducted a quantitative study in Canada’s largest companies and illustrated that five factors can be extracted as the main indicators. These are 1) code purpose (ethical code should be the main determinant of employee appraisals and should help determine strategic planning process), 2) code implementation (ethical code should be effectively conveyed to the employees through training programs), 3) internal code communication (all employees and newcomers should be well informed about the
ethical code and about possible results of violation), 4) external code communication (ethical code must be communicated to the suppliers and the customers), and 5) code recency (ethical code should be updated frequently).

Smith and Hume (2005), in their quantitative study, reported significant cultural effects on ethical responses. Their study linked the two concepts merely on the individual level, but the study covered accountants from six countries which signal as to how the relationship linking culture and ethics can be viewed at a much larger perspective. Effects of organizational culture on decisions of professionals was studied by Douglas et al. (2001) and the findings showed that individual perception of ethical behaviors was a direct influencer on the ethical decisions as were the external factors like ethical codes of the workplace.

This study considers how organizational cultures influence ethical decisions, ethical codes, quality of such codes, and the effectiveness of ethical behaviors. First, we look into how organizational culture has been viewed and studied in the literature. Then we dig into business ethics. Ethical corporate cultures evident in the form of ethical climates within organizations are examined in order to understand the nature of the mechanism by which ethical or unethical cultures are derived in time. Then we review major approaches in ethical decision making processes. Lastly, we conclude by summarizing major findings and approaches highlighted in the study and try to extract implications for companies, managers, and organizations in general.

2. ORGANIZATIONAL CULTURE

In their work studying the influence of corporate culture on ethical decision making of managers, Nwachukwu and Vitell (1997) emphasize the significance of the multi-faceted nature of the corporate culture construct. Corporate culture emerges through both formal and informal interactions between individuals. Ouchi (1981) stresses the importance of the kind of philosophy behind corporate strategies whereas Van Maanen (1976) asserts that informal groupings in the organization make it easy to spot what behaviors are favored or not. As the company and the culture with which it lives in evolves, favorable patterns of behavior that dictate what is acceptable or not naturally emerge. Once these patterns of behavior get fixed and become more stable, then newcomers as well as new modes of behavior are more likely to be influenced by and to adapt to these already existing behaviors rather than influencing the old ones and change them.

Organizational culture is a complex and dynamic web of common values, attitudes, and behaviors in organizational settings. Regarding culture, Christie et al. (2003) emphasize the shared ideas and perceptions aspect and link this to the way individuals conceptualize the world around them. Thus, it can be stated that the abstract nature of the organizational culture concept makes it difficult to manage. An attitude or a behavior easily accepted in one organizational culture may not be welcome in another. Hofstede (1997, p. 4) uses the term “mental programs” to define the shared ideas and connotations individuals have. These meanings turn prevalent values into organizational culture.

Because of the complex nature of organizational culture, comparison between different cultures is a delicate task. Usually similar companies or industries across certain dimensions can be meaningfully compared. Hofstede (1997) asserts that values lie at the very core of the organizational culture. Even though the overall culture is subject to changes in time due to certain advances in technology base, political and economic climate, etc., Schwartz (1992) claims that values are usually stable over time.

Organizational culture construct as well as the literature regarding this area are heavily influenced by Hofstede’s seminal works. According to Hofstede (2001), organizational culture refers to the collective and distinguishing patterns of perspective one group has over the other. Hofstede’s level of analysis is mostly national level and thus can be categorized as the utmost macro level. In this study, we consider all levels of analysis but concentrate mostly on the organizational level of culture.

Commonly accepted theory of culture can be traced back to Hofstede’s original studies with IBM managers in more than 50 countries over a six year span. The major dimensions discovered can be summarized as individualism, power distance, uncertainty avoidance, and
In their following studies, Hofstede and Bond (1988) introduced a fifth dimension short vs. long term orientation although even today most researchers prefer to follow the four dimensional original categorization. Hofstede’s work can be stated to rely on a major assumption, that cultural values are to a great extent stable over time (Zhuang et al., 2005). This assumption is supported by evidence from Barkema and Vermeulen’s (1997) work that extends well over two decades.

Culture is made up of certain values that find their support in daily behaviors within organizations. Christie et al. (2003) assert that values are powerful and long lasting beliefs about organizational goals. In this regard, values are affected by the kind of significant goals that are existing in the organization. Values come together to form the backbone of a culture since they determine whether or not an activity is good or bad (Christie et al., 2003). However, according to Manstead and Hewstone (1995) attitudes are more free and not transferred from different individuals within the same organization. Attitudes are actually accepted to be an outcome of organizational culture. Thus, we can assert from this point that same or similar cultures have different sets of attitudes within them.

Key (1999) traces roots of organizational culture back to anthropology. She emphasizes that derived patterns of thinking create habits and traditions that become the brick and mortar for organizational culture. Reinforcement of behaviors increase their tendency and effect within the organization. Trevino (1986) reports evidence for democratic cultures to embody more individualistic responsibility. Thus, cultural effects have a certain degree of influence on the way people perceive a situation, event, or a problem.

Schein’s (1985) views can be categorized as a major approach on organizational culture construct. His perspective is that organizational culture is both learned and conveyed to the newcomers. When a new member enters an organization, the first things and most influential factors he/she will be facing will be the facets of the dominant culture. Of course, he/she may be influenced mostly by a major sub dimension or a subculture within the existing culture, depending on the department or work he/she is engaged in, nevertheless the overriding culture will, by far, impose the biggest effects.

According to Kotter and Heskett (1992), assumptions are also a major influencer and a significant ingredient of culture. Assumptions manifest most solidly in people’s attitudes and behaviors. In this regard, newcomers quickly pick up on the existing assumptions which have a certain history and own that set of assumptions as if they were theirs. Thus, assumptions quickly get transformed and transmitted within the organization. Regarding the issue of classifying what is right or wrong, Trompenaars and Hampden-Turner (1997) claim that a major point to be addressed is the case-specific situations. In addition to individual differences in perception, case-specific situations also play an important role in determining the ethical perspective.

Sinclair (1993) emphasizes the importance of the shared set of responses. She asserts that organizational tasks, problems encountered, and the general environment in which the organization functions (e.g. the industry specific dynamics) are the media in which cultural effects can be experienced in the form of responses. These attitudes carry with them the unique organizational characteristics which help differentiate one organization from another.

Webley and Werner (2008) mention about a certain degree of gap between ethical policy measures and actual business practices. Even though ethical codes are covered in the business ethics section of our study, here it is worth mentioning the dynamics behind such gaps. Gaps form due to “certain deficiencies in corporate culture” (Webley and Werner, 2008, p. 408). The influence of organizational culture on ethics programs of companies leave such gaps so that managers can effectively take very different courses of action within the same organization. Thus, it is fair to say that even though organizational culture is the overriding major effect on individual behaviors and attitudes, these behaviors do not always correspond in the same prescribed way. The individual circumstances that play significant roles in the specific cases determine the end result for an action. In a very similar situation, depending on personal requirements or preferences, managers may choose to follow very different courses of action in the company.
Organizational culture that is made up of norms and values reflect certain assumptions and preferred ways of action. These can be viewed in the actions and behaviors of organizational members as well as observing them in informal organizational situations. The general organizational culture includes major influences on individuals, but the attitudes are not totally predictable. In this sense, the complex nature of the organizational culture construct reveals rich but at the same time difficult to manage facets. An organizational culture that sees ethical practices to be important or less than important will inevitably reflect in that organization’s activities and general well-being.

3. BUSINESS ETHICS

Strategic competitive advantage of firms’ is influenced by financial and non-financial assets. Therefore, Tilley et al. (2012) claim that both tangible costs and intangible costs such as unethical behaviors are crucial for firms. According to Seitz (2001) in today’s competitive environment, ethical issues have become one of the strategic goals of the organizations and an integral part of the firms’ success. Firms have to create corporate ethical culture besides their organizational culture to stand out among their rivals.

Peter Drucker’s management theory discusses business ethics issues in the following way (Schwartz, 2007a):

- Profits are not the only purpose of firms.
- Firms have social responsibilities to improve welfare of society
- Firms have special responsibilities towards its employees and stakeholders.

Mauro et al. (1999) identify business ethics not only as one of the corporate goals but also as a process defining ethical codes of organizational behaviors. Brenner (1992) identifies business ethics as integration of organizational values, behaviors, policies, and activities. Two major components of ethics systems in organizations are explicit component and implicit component. Explicit component include corporate codes of ethics, policy manuals, management ethics decisions, and ethics employee behaviors. On the other hand, implicit components include corporate culture, valued behaviors and management behaviors. According to Segon and Booth (2015) firms have to analyze organizational culture, support ethical behaviors and not give support to unethical behaviors in designing their ethical corporate system. They identify five critical components of ethics systems as 1) leadership, 2) policies, 3) techniques and systems, 4) motivation and 5) audit review.

According to Brenner (1992) corporate ethics system is created through the integration of two key dimensions. These dimensions are as follows:

1) Structural Dimension: This dimension refers to the descriptions of individual components and the patterning of components.
2) Behavioral Dimension: This dimension refers to impacts of ethics practices on organizational behavior. Ethics principles guide the employee, managers and stakeholders of the organization.

4. ETHICAL CORPORATE CULTURE

According to Woodall (1996) culture management is a competitive instrument for corporate success and organizational culture has various dimensions. Key (1999) claims that ethical culture of organizations is one of the major dimensions of organizational culture. Organizational culture is an antecedent of ethical corporate culture. Organizational culture influence organizations’ decision-making process. Therefore, there is a link between organizational ethics standards and cultural values.

According to Kohlberg (1969) firms can develop ethical corporate culture in six stages. These stages consist of three levels. These levels are preconventional level, conventional level, and principled level. Stage one and two are located in preconventional level; stage three and four are located in conventional level; stage five and six are located in principled level.

- Stage one: The orientation of obedience and penalty. It is necessary to obey the rules if the person wants to avoid physical punishment.
- Stage two: Influential goal and exchange. Rules are obeyed only if it is an interest of someone.
• **Stage three:** Harmony, similarity and common expectations between people. Common “good” intentions and behavior is expected by the people around you.

• **Stage four:** Social harmony and maintenance of the system. The tasks and commitments that are accepted should be fulfilled.

• **Stage five:** Social communication and personal rights. People tend to hold their own values in a group and awareness of this value variations is important.

• **Stage six:** Global ethical values. These values can be regarded as universal ethical principles apply everywhere and every time.

Ethical virtues of organizations are an integral part of ethical conduct. Corporate Ethical Virtues Model (CEV Model) has evolved by Kaptein (1998). This model defines seven virtues as follows:

- **Clarity:** This virtue refers to the which conduct of employees should have crystal clear and concise expectations. If expectations of employees are less than clear, then this will affect corporate ethics negatively.

- **Congruency:** This virtue refers to the importance of promoting ethical behaviors and preventing unethical behaviors within organizations.

- **Feasibility:** This virtue refers to the risk of unethical behaviors occurring in the organization when employees lack qualified information, time, equipments, and budgets to fulfill their task and responsibilities.

- **Supportability:** According to this virtue, employees who feel that they are taken seriously behave ethically. Firms have to motivated their employees to implement ethical standards of their organizations.

- **Transparency/Visibility:** This virtue refers to the importance of high level of transparency or visibility. Employees succeed in adopting ethical values and correcting their behaviors in organizations which have high levels of transparency.

- **Discussability:** This virtue refers to raising and discussing ethical and unethical issues by the employees within their organizations.

- **Sanctionability:** This virtue refers to the importance of sanctions. According to this virtue firms can reward ethical behaviors and punish unethical behaviors.

Sinclair (1993) explains two approaches to develop ethics in organizations. The first approach is creating a unitary organizational culture around ethical values. The second approach is subcultural approach.

1) **Creating an unitary organizational culture:** This approach refers to developing a cohesive corporate culture around core ethical values. According to this approach strong organizational culture enhances ethical behavior of organizations.

2) **Subcultural approach:** This approach refers to understanding and managing differences of subcultures instead of creating new cultures. The subcultural approach encourages employees to understand and adapt ethical values of the organization.

According to Smith and Hume (2005) understanding the relationship between organizational culture and ethical values is very critical for firms. Some of the ethical values such as honesty are universal, whereas other ethical values such as fairness and equity can be associated with organizational culture. Ethics is not only a part of organizational culture, but it is also related with organizations’ structures, systems, and processes.

5. **CORPORATE CODES OF ETHICS**

Codes of ethics are compilations of “written, distinct, and formal documents which consist of moral standards used to guide employee and corporate behavior” (Schwartz, 2001b; p. 248). In today’s business environment, corporate codes of ethics have become essential tools for firms (Oladinrin and Ho, 2016). Therefore, corporate codes of ethics exist in many organizations as a part of firms’ ethics management process. The existence of organizations’ ethical codes can, to a certain extent, reduce unethical behaviors within the organizations. According to Singh (2011) the
importance of corporate codes of ethics has been increasing throughout the world. He claim that there are several reasons for having corporate codes of ethics. These reasons are as following:

- Ethics codes of organizations enhance firms’ reputation and brand image in internal and external environments.
- Ethics codes of organizations provide to perceive better and more effective corporate ethical practices.
- Ethics codes of organizations can gather employees around their corporate culture and benefit from corporate values more.
- Ethics codes of organizations provide to affect their stakeholders, customers, suppliers, and investors positively.

According to Payne and Pressley (2013) corporate codes of ethics support firms to prevent unethical behaviors in the organizations. Codes also empower organizational commitment. In this way, employees are motived to understand and practice their corporate ethical codes.

6. ETHICAL DECISION MAKING

Liu et al. (2004) claim that the goals of organizations lead ethical behaviors. In their proposed model, there are three factors. These factors are individual factors, local factors, and cosmopolitan factors. Individual factors (employee ethics) have influence on organizational behaviors. Local factors consist of ethical climate, ethical culture, and code of ethics. On the other hand, cosmopolitan factors include law and professional bodies’ codes of conduct.

Nwachukwu and Vitell (1997) emphasize corporate values which influence behaviors of individuals and groups within organizations. They define three major factors which impact ethical decision making as 1) individual autonomy, 2) consumer sovereignty and 3) harmfulness of certain products.

Trevino (1986) explains interaction of individual and situational variables in her ethical decision making model. Individual components such as ego strength, field dependence, and locus of control influence the employees’ decision regarding strongly. Job context, organizational culture, and characteristics of the work are the situational components of ethical decision making process. These situational components impact moral development in the organizations. The adaptation of moral development leads creating ethical and unethical behaviors standards for managers and employees in their decision making process.

According to Jones (1991) social, cultural, economic, legal, technologic, and organizational environmental factors influence firms’ ethical issues. In his synthesized model, ethical decision making process begins with the environment factors and proceeds with recognizing moral issue, making moral judgment, establishing moral intent, and engaging in moral behavior stages. He also identifies moral intensity as the most important determinant of ethical decision making process.

In their proposed model of ethical decision making. Robertson and Fadil (1999) focus on Hofstede’s individualism/collectivism dimension because this dimension is explicit quantifiable. The model also include other critical levels in the corporate ethical decision making process. These levels are education and training, moral development, the intensity of the ethical dilemma, and moderating factors.

According to Ferrel and Gresham (1985) ethical decision making process is influenced by individual factors individuals’ knowledge, values, attitudes, and intentions, organizational factors, other significant individual/groups, and opportunities in the organizations. They claim that these antecedents have an important impact on ethical and unethical behaviors in the organizations. Effective ethical decision making requires multidimensional perspective at all levels of the organization.

7. CONCLUSION AND IMPLICATIONS FOR PRACTICE

Organizational culture is a very viable topic of interest for both researchers and practitioners. Among all resources available to organizations, culture stands out to be unique on its own in the sense that it is truly non-imitable. No other company in the world possesses your company’s unique human resources which has its own and unique organizational culture. Thus any competitiveness or differentiation efforts might very well rely on organizational culture soundly. This is true if the organizational culture is one that is allowing and making it easy to create effective results.
Our contemporary management styles all around the globe in highly competitive environments praise financial performance above all. We challenge this view. If we only go after such short term gains, then as research findings show our medium to long term success is heavily hurt. Thus we assert that organizational culture should embody ethical codes that take into account not only short term financial gains but also long term well-being of the company as well as the society and the environment in general. Such an ethical code should find its roots not in benchmarking best practice cases but in the authentic organizational culture itself.

Practitioners can benefit greatly by facing their organizational culture not as a burden but as a source of their true ethical codes. By building true corporate ethical codes that reflect values, attitudes, and behavioral patterns that are already prevalent in the organizational culture, managers can pave the way to a more effective management style. Companies that really deliver what they promise to in terms of behaviors, products, services, and processes are going to be much more successful in conveying such reliable information through their internal and external communication activities.
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