Chapter 4
THE CORPORATE CULTURE—IMPACT AND IMPLICATIONS
“Our plans miscarry because they have no aim. When a person does not know what harbor he [or she] is making for, no wind is the right wind.”
- Seneca

“It takes 20 years to build a reputation and five minutes to ruin it.”
- Warren Buffet

“There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things.”
- Machiavelli
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.
O List the issues that you think should be addressed in a code of ethics.
O Other than a code of ethics, what other elements would you include in an ethics program?
O How will you define “success?” Are there any facts that you will need to gather to make this judgment?
O How would you measure success along the way? How will you measure whether your ethics program is “working before you reach any end objective?”
O Who will you define as your primary stakeholders?
OPENING DECISION POINT: CREATING AN ETHICS PROGRAM

- What are the interests of your stakeholders in your program and what are the impacts of your program on each stakeholder? How might the measurement of the program’s success influence the type of people attracted to the firm or people who are most motivated within your organization?
- How will you answer the CEO’s questions about her own role in promoting ethics?
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
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
WHAT IS CULTURE?
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.
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)
- Values-based or integrity-based cultures
  - More flexible and far-sighted corporate environments
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<tr>
<th><strong>Traditional</strong></th>
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<td><strong>Methodology: Focus on policies, transactions and compliance</strong></td>
<td><strong>Methodology: Focus on goals, strategies and risk management processes</strong></td>
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COMPLIANCE CULTURES

- 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 CULTURES

- 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.
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.
DIFFERENCES IN GOALS

- 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.
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.
LEADERSHIP: SETTING THE CULTURAL TONE

- 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.
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.
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.
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.
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.
CULTURE INTEGRATION

- 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.
o **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.

o Whistleblowing can occur internally or externally.

o 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.
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 its financial environment says it all.
When internal mechanisms for creating ethical corporate cultures prove inadequate, the business community can expect governmental regulation to fill the void.

The United States Sentencing Commission, an independent agency in the United States Judiciary, was created in 1984 to regulate sentencing policy in the federal court system.

In mandating sentencing procedures, Congress through the USSC has been able to incorporate the original purposes of sentencing in their procedures, bring some of these challenges under control.
MANDATING AND ENFORCING CULTURE: THE FEDERAL SENTENCING GUIDELINES FOR ORGANIZATIONS

- Beginning in 1987, the USSC prescribed mandatory Federal Sentencing Guidelines for Organizations that apply to individual and organizational defendants in the federal system.
- The court inputs information into a sentencing grid and determines the offender’s guideline range, subject to adjustments.
- In its October 2005 decision in *U.S. v. Booker*, however, the Supreme Court severed the “mandatory” element of the guidelines from their advisory role, holding that their mandatory nature violated the Sixth Amendment right to a jury trial.
- Though no longer mandatory, a sentencing court is still required to consider guidelines ranges, but is also permitted to tailor a sentence in light of other statutory concerns.
The relevance of these guidelines to our exploration of ethics is that the USSC strived in its guidelines to create both a legal and an ethical corporate environment through these adjustments.

The guidelines seek to reward corporations who create an effective ethics and compliance system so that they are not penalized (or the penalty is reduced) if they have an effective program but they find themselves in court.

On the other hand, firms who did not have effective ethics and compliance systems would be sentenced additionally to a term of probation and ordered to develop a program during that time.
MANDATING AND ENFORCING CULTURE: THE FEDERAL SENTENCING GUIDELINES FOR ORGANIZATIONS

- Acts of an organization, identified by the USSC guidelines, which can serve as due diligence in preventing crime and the minimal requirements for an effective compliance and ethics program are:
  - Standards and procedures
  - Responsibility of board and other executives; adequate resources and authority
  - Preclusion from authority: prior misconduct
  - Communication and training
  - Monitoring, evaluation, reporting processes
  - Incentive and disciplinary structures
  - Response and modification mechanisms
DISCUSSION OF OPENING DECISION POINT: CREATING AN ETHICS PROGRAM

- This Decision Point asks you to define the “success” of an ethics program, an extraordinary challenge even for those in this business for many years.
- One way to look at the inquiry would be to consider the measures by which you might be willing to be evaluated, since this is your project.
- You will need to explore whether there are pressures in your environment that encourage worker misconduct.
- You will need to consider whether there are systematic problems that encourage bad decisions. Have you identified all of the major legal, ethical, and reputational risks that your organization faces, and have you determined the means by which to remediate those risks?
Because you will encourage the performance that you plan to measure, it is important to determine whether you will be most concerned with the end results or consequences, or with the protection of particular values articulated by your program or codes.

If you measure outcomes, alone, you will have a singular focus on the achievement of those outcomes by decision-makers.

If you measure the protection of rights, alone, you may be failing to consider the long-term implications of decisions in terms of their costs and benefits to the firm.
CHAPTER FOUR VOCABULARY TERMS

After examining this Chapter, you should have a clear understanding of the following Key Terms and you will find them defined in the Glossary:

- Code of conduct
- Compliance-based culture
- Culture
- Ethics officers
- Federal Sentencing Guidelines for Organizations
- Mission statement
- United States Sentencing Commission
- Values-based culture
- Whistleblowing