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Ethical culture and management

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Abstract

An unfortunate marker of the current times is the scale of unethical behaviour and corporate corruption committed by business leaders. A powerful antecedent of unethical behaviour is organisational culture. This chapter discusses what constitutes and drives an ethical culture. It defines the concept of ethical culture and reviews different approaches that have been used to measure ethical culture in organisations. The Corporate Ethical Virtues model is reviewed in more detail as one example of a reliable and valid way to operationalise ethical organisational cultures. Finally, specific management strategies to maintain and minimise potential threats to an ethical culture are also provided.

Keywords

Introduction

Combining the terms 'business' and 'ethics' is no longer seen as such an oxymoron or laughing matter as it might have been some decades ago. However, current trends in corporate ethics still continue to show some worrisome results. For example, in 2020, a large US survey targeted more than 14,500 employees across several industries and found that almost one in four people felt everyday pressure to act unethically at work (Ivcevic et al. 2020); this pressure is in addition to the larger scale scandals of unethical practices that have been exposed and attracted widespread media attention.

Previously the attempts to prevent and address unethical behaviour have focused on individual transgressors, picking out the 'bad apples' in an organisation (Treviño

and Youngblood 1990). However, the focus has since shifted towards looking at organisations as a whole – especially their ethical culture – as a better way to account for unethical behaviour (Kaptein 2011). Ethical culture refers to the moral environment in a workplace, and it sometimes manifests itself in public statements regarding the company's values, in codes of ethics, and in reports. However, this ethically correct image may be merely a case of 'window-dressing ethics' (Sims and Brinkmann 2003). It is more accurately the workforce itself that will truly define whether a work culture is ethical or not (Shanahan and Hopkins 2019). In this respect, an ethical culture depends on collective efforts made by its members to act in a just and fair manner (Chun 2005), and these are stimulated and supported by organisational structures.

This chapter is built around three main questions central to creating and maintaining an ethical work environment. Firstly, what is an ethical culture? Defining the concept is a necessary first step for determining the boundaries of the phenomenon, and of then deciding what is possible within them. Secondly, how can ethics in a work culture be actually measured? In order to evaluate, develop, and then re-evaluate just how embedded those ethics are within an organisation, we need reliable and valid measures that provide trustworthy results. Only then will it be possible to compare different organisations and work units with each other, and to assess change over time. Here, one approach to conceptualizing ethical culture will be discussed in more detail – in terms of ethical virtues in organisations. Thirdly, what drives an ethical culture and what is the role of management in creating and maintaining such a culture? Managers and leaders have a crucial role in setting the formal boundaries for ethical behaviour as well as providing informal examples of desired (and tolerated) conduct. Therefore, it is important to understand the mechanisms through which leaders affect an organisation's ethical culture. Finally, after providing answers to these questions, some examples will be given of the different positive effects that a strongly embedded ethical culture can have on the members of an organisation.

What is an Ethical Culture?

Culture is the social glue that helps to form and maintain groups and guide their behaviours. Culture consists of the shared meanings, norms, symbols, and values that create a common understanding within a certain group. It helps us define who we are, why we are here, and what our common goal is (Schein 1990). Within organisations, culture includes observable features such as office design, logos, formal rules, styles of interaction, codes of conduct, value statements, and so on; but on a deeper level, it also includes the values and beliefs that are held to be important within the organisation. For example, whether employees are seen as an asset that create a competitive advantage and profit the organisation, or more as invaluable individuals whose wellbeing and development the organisation has an obligation to foster. These underlying structures of culture are transmitted from one organisational member to another through socialisation. The longer the organisation exists,

the more customary these norms and practices (both formal and informal) become, guiding the members' behaviours and attitudes. Thus, the deeper level of culture often remains subconscious to those who are part of it.

Ethical culture can be defined as a subset of the broader organisational culture and includes what people in the organisation think of as right and wrong. This overall perspective on (business) ethics governs how members behave when engaged in organisational activities (Sinclair 1993). It includes their experiences, presumptions, and expectations with regard to how unethical behaviour should be prevented and ethicality encouraged in their organisation (Treviño and Weaver 2003). Ethical culture has its origins in the underlying ethical values that can be formally defined and fostered by the management (via, for instance, codes of ethics and reward systems). However, ethical culture is also shared and redefined by members through informal practices such as peer behaviour, role models, and traditions (Treviño 1990; Treviño et al. 1998). The formal systems help to outline and communicate the artificial level of ethical culture both to members (via official codes of conduct) and outsiders (via value statements on the company website), but organisations can never specify a set of explicit rules that are directly applicable in every situation. Here is where the informal systems are needed: the deeper levels of culture (such as the underlying norms for accepted behaviour) provide implicit knowledge about how to react in a certain situation, how the organisation works, and what is expected from its members.

A question that often arises concerning ethical contexts in organisations has to do with the difference between ethical culture and ethical climate. Are these two concepts separate from each other or do they overlap, and if so, to what extent? One way to clarify the relationship between climate and culture is to distinguish substantive elements of the context from those which are procedural (Kaptein 2008; 2011). Ethical climate is substantive insofar as it describes the perceptions of what is seen as ethical behaviour within the organisation (Victor and Cullen 1987), while ethical culture can be classified as procedural, because it includes all the formal and informal systems for sending messages to employees that either support or do not support their ethical conduct (Treviño et al. 2017). Ethical culture therefore refers to the conditions that can stimulate ethical conduct. Although there has been criticism of making too strong a distinction between ethical climate and culture (Denison 1996), at least two studies have found that ethical culture has a stronger association with ethical behaviour than ethical climate (Kaptein 2011; Treviño et al. 1998). So although the two concepts clearly have much in common with each other, they capture somewhat different contextual aspects: climate is more related to employee attitudes (regarding what is ethical about their organisation), while ethical culture is related more to actually influencing behaviour (so that the organisation is more ethical).

How Strong Is Your Organisation's Ethical Culture?

Because ethical culture includes very similar elements to corporate culture in general – tacit knowledge, subtle hints and drivers for certain (favoured) behaviours, myths and stories, role models and heroes – we can assume that ethical culture is neither an objective truth nor an unambiguous phenomenon. Indeed, it is debatable whether organisational culture is a construct that can be measured at all (see e.g., Cameron and Quinn 2006). However, any attempt to change ethical culture should always begin with a thorough assessment of the status quo: what does the current ethical culture look like? In this respect, we do need to have some way of quantifying and measuring it.

Because ethical culture consists of socially transmitted norms, values, and expectations, the messages that employees get in their everyday work life might not always translate as directly as the management intended. Furthermore, as already mentioned in the previous section, existing norms and habits become difficult to observe by those who are part of a culture that is increasingly taken for granted over time. All efforts to map and improve an organisation's culture should thus start with asking members directly about their perceptions of it there and then (Treviño et al. 2017). Ideally, this should include all employees and managers from all units or subgroups in the organisation. This kind of broadly gathered information is particularly important, as working in different hierarchical, occupational, professional, or functional subcultures within one organisation (Hofstede 1998) can lead to very different perceptions of the quality and strength of the ethical culture. For example, a survey of only top managers might well give a rosier view than asking employees from the ground level up (Huhtala et al. 2018; Treviño et al. 2008).

One important question here is whether ethical culture should be taken as a one-dimensional construct or as having separate dimensions related in different ways to unethical behaviour (and other relevant outcomes). Some researchers have called for more parsimonious, one-dimensional measures (Mayer 2014), while others highlight the value of using multiple components for ethical culture (Kaptein 2008; Treviño et al. 2017). These different approaches to measure ethical culture in organisations are what will be looked at next.

The first attempt to tap values as indicators of ethical organisational culture was the three-dimensional corporate ethical values scale developed by Hunt et al. (1989). This scale measured employees' perceptions of the ethical actions and concerns of their managers; how ethical behaviours were rewarded; and how unethical behaviours were sanctioned in their particular organisation. Its main disadvantage was that the scale consisted of only five items in total, in which only the rewards dimension was measured with more than one item – meaning it provided only a narrow representation of ethical culture.

Treviño and her colleagues (1998) thus went on to develop a broader measure of ethical culture based on previous theoretical work (Treviño 1990). The dimensions included in this scale mapped both formal and informal elements of an ethical culture: rewards for ethical behaviour; sanctions for unethical behaviour; norms that

supported ethical conduct; peer behaviour; leaders as role models of ethical conduct within the organisation; expectations for employees to obey authority figures without question; and the reporting of unethical behaviour by employees. Items in this measure nevertheless had a built-in assumption that the organisation in question would have a formal ethics code – thus ruling out those without one.

Key (1999) responded to this drawback by modifying the measure so that any items referring to an ethics code were removed and parts of other items were reworded. This modified Ethical Culture Questionnaire (ECQ-M) was then used to compare mean ratings of ethical culture in different organisations. Key (1999) reported that they found no significant differences in ethical culture between the organisations they studied, and no agreement among group members within each organisation. Even though these conclusions were based on a one-way analysis of variance, without using any multilevel sampling or hierarchical models to assess shared variance in more detail, she concluded that ECQ-M succeeded in measuring individual perceptions about ethical aspects of an organisation rather than its ethical culture *per se* (Key 1999). Perhaps because of this, ECQ-M remained only marginally applicable for the best part of a decade. It was not until 2008, when Muel Kaptein introduced the first multidimensional, normative model and scale for measuring ethical organisational culture – 'Corporate Ethical Virtues' (CEV) as he called it – that any further steps could be made. This was a virtue-based approach to organisational ethics: where the focus is on the importance of aspiring to do one's best and on the motivation to pursue moral excellence – at both individual and corporate levels (Cameron et al. 2004). The driving forces for sustainable business practices here are clearly based on moral character and moral virtues (Moore 2015). The CEV model takes a normative stand on ethical culture, assessing organisations as moral entities in terms of eight key virtues, seen as necessary for ethical behaviour to flourish. These virtues indicate the degree to which the strategy, structure, and culture of the organisation will stimulate employees to behave ethically (Kaptein 1998). The CEV model was the result of four interlocking studies, which examined the eight key virtues and showed that identifiable ethical cultures existed between different organisations (Kaptein 2008). The CEV model remains one of the few which offer an evidence-based instrument to measure virtue at both the organisational (Kangas et al. 2014; Morales-Sánchez and Cabello-Medina 2015) and team levels (Cabana and Kaptein 2019), and as such, it is also a reliable and valid way to operationalize ethical virtues. These strengths distinguish it from other attempts that have been made to identify the key virtues of individuals (see e.g., Shanahan and Hyman 2003; Morales-Sánchez and Cabello-Medina 2015) or organisations (Solomon 1992; Moore 2015).

Finally, the most recent advance in measuring ethical culture has been the development of a new scale that integrates compliance- and integrity-oriented approaches (Tanner et al. 2019). The aim behind creating this new measure was to create stronger links with managerial practice at the same time as showing how organisations can be supported and steered towards being more ethical. In their study, Tanner et al. (2019) draw attention to two very different strategies that can be used to

minimize and prevent ethical misconduct: 'command and control' (or compliance-oriented approaches) use control, detection and threats of punishment as a means of enforcing rules and ethical standards; while integrity-oriented approaches encourage moral self-governance and a sense of responsibility for shared values. The latter rely on the assumption that employees can be trusted and that they intrinsically want to follow organisational rules, and it was also found to explain slightly more variance in deviant workplace behaviour. This led Tanner et al. (2019) to conclude that encouraging employee's self-responsibility and moral motivation might be a more fruitful approach in strengthening organisational ethics than control and command strategies. However, their German Ethical Culture Scale (GECS) is currently restricted to the German language, so there is a need to translate, test, and validate it in other linguistic contexts too, to better investigate its properties and applicability (Tanner et al. 2019).

In sum, one major limitation to measuring ethical culture in organisations comes from the fact that there are few directly comparable results as there has been little consistency in the instruments used to measure it (Mayer 2014). This means we still lack proper empirical evidence to know if these different measures are assessing a similar construct. Of those mentioned, the next section will therefore focus in greater detail on the CEV model (Kaptein 2008), as it has so far received the most empirical evidence. The CEV scale has also received support for its reliability and validity in a range of contexts (see Huhtala et al. 2018), so it is the best candidate for assessing the embeddedness of ethical virtues within organisations. However, it needs to be stressed here that future studies should nevertheless strive towards examining more than one measure of ethical culture at the same time, as this would be the best way to test their relative validity against each other.

Ethical Culture is Rooted in Virtues

The origins of Kaptein's (2008) model for ethical culture in organisations go back to the ancient Greek and Aristotelian concept of virtue. Robert Solomon (1992, 2004) had a seminal role in arguing that virtue needs to be cultivated not only in individuals, but also in the corporate world. He emphasised that individuals need to have virtuous characteristics that can be expressed in their actions, while the community must act as an agent for facilitating moral and social responsibility. Corporations should thus nurture individual morality through 'a morally rewarding environment in which good people can develop not only their skills but also their virtues' (Solomon 1999, p. 24). This supports the human need to pursue what Aristotle saw as the highest human good – *eudemonia* – or a certain level of welfare and prosperity.

Kaptein (1998, 2008) developed the CEV model as a means of implementing Solomon's approach. He argued that both individuals and organisations can and should possess virtues that will manifest themselves in ethical practices. After several years of theoretical and empirical research, he identified and validated seven

key virtues that organisations should strive for. These virtues are (i) clarity, (ii) congruency, (iii) feasibility, (iv) supportability, (v) transparency, (vi) discussability, and (vii) sanctionability. Each virtue represents a different organisational condition for and capacity to stimulate ethical behaviour depending on the degree these virtues are embedded in organisational practices (Kaptein 2017). It should also be noted that different virtue sets to those in the CEV model have been suggested by previous research (e.g., Murphy 1999) but, going back to his previous distinction, Kaptein argues that these 'sets are substantive (i.e., more climate-related) and organization-specific instead of procedural and generic' (Kaptein 2008, p. 944).

(i) The first virtue in the CEV model is *clarity* and refers to the way moral expectations are communicated by an organisation to its members. The employees should have concrete, comprehensive, and understandable information available about what is morally expected of them (Kaptein 2011). Virtues are, by definition, the pivotal point between two vices – that is, between the two extremes of excess and deficiency (Kaptein 2017). If clarity, for instance, was taken to its vicious extremes, the organisation would be either too rigid and detailed in its moral expectations (excess) or too unclear and vague (deficiency) about them (Kaptein 2011).

(ii) *Congruency* refers to how supervisors and senior management set a moral example. Does their behaviour match what is expected of other employees? The underlying theory of congruency comes from social learning (Bandura 1986), which shows that people learn by observing how others behave, and by witnessing the consequences of their actions. If ethical role models are therefore absent or defy the organisation's rules and norms, it implies that unethical actions can be overlooked or even positively allowed. At its most vicious extremes, excessive *in*congruency will expose the organisation to ethical breaches (Kaptein 2008, 2011), while excessive congruency might come across as mere sententiousness: if managers pretend to be more ethical than is credible, employees can view them as hypocritical and estranged from the everyday ethical challenges of the job, and as unattainable, saint-like role models (Kaptein 2017).

(iii) The virtue of *feasibility* (or 'achievability'; Kaptein 2008, 2017) refers to the concrete resources that are available in the organisation for employees to fulfil their ethical responsibilities, and the possibilities for them to achieve these. Individuals should thus be provided with sufficient time, information, budgets, equipment, and authority. In a high-pressure culture, complying with ethical standards can become superfluous and other aims – such as meeting financial goals – are given precedence (Kaptein 2011). At its vicious extremes, a lack of feasibility means there is a heightened risk of unethical behaviour, as employees are unable to achieve their goals via legitimate means (Kaptein 2017); while an excess of feasibility is lavishness. Although this is less common, misusing resources and paying a disproportionate amount of time to ethical issues at the expense of other vital organisational practices can lead to a degree of recklessness, inefficiency, or passivity, which all increase the risk of unethical behaviour (Kaptein 2017).

(iv) The virtue of *supportability* focuses on the shared commitment of employees and the organisation to ethical conduct, leading to an atmosphere of trust and fair

treatment for all (Kaptein 2008, 2011). When an organisation cultivates values that are identifiable to its members, it boosts their internal motivation, satisfaction, affective commitment, and involvement in the organisation (Tyler and Blader 2005). At its vicious extremes, however, excessive support leads to an over-zealous and possibly even fanatic commitment to ethical conformity (Sims 1992), while a lack of support will encourage animosity, indifference, and opportunistic or selfish behaviour (Kaptein 2017).

(v) *Transparency* (also referred to as 'visibility', Kaptein 2008) encourages ethical behaviour by increasing employees' awareness of the positive and negative consequences of certain actions. In a transparent organisation, the ethical consequences of their behaviour are observable to others. Potential perpetrators can thus expect that it will be known about long before they would even consider doing something unethical (Gibbs 1975). At its vicious extremes, low transparency leads to employees being unaware of each other's behaviour, and remote management practices, while too much not only violates employees' privacy, but can also lead to information overload, difficulty making decisions, stress, confusion, and feeling a lack of control (Kaptein 2017).

(vi) *Discussability* refers to how easy it is for employees to raise and discuss ethical issues at work, including alleged unethical behaviour (Kaptein 2008). A culture that encourages open discussions about ethics can increase shared learning, provide support for all, and reassure employees that ethical concerns are seen as important. At its vicious extremes, a lack of discussion can lead to a work culture of moral muteness (Bird and Waters 1989) – significantly increasing the chances of unethical behaviour (Kaptein 1998), while an excess can endanger privacy and lead to indecisiveness, as all discussions remain open – in extreme cases this can result in anarchy (Kaptein 2017).

(vii) The final virtue is *sanctionability*. It refers to the ways an organisation reinforces certain ethical behaviour through rewards and sanctions. According to reinforcement theory – applied in the work context by, e.g., Luthans and Kreitner (1985) – rewards should lead to repetition and punishment to avoidance of those behaviours. At its most vicious extremes, excessive 'laxity' or complete absence of sanctions (Kaptein 2017) indicates that unethical conduct is acceptable or even desirable (Ball et al. 1994), while overly excessive sanctions lead to oppressiveness, translating into disproportionately high rewards for some employees and severe punishments for others. Kaptein (2017) has discussed several ways in which oppressiveness is likely to increase the risk of unethical conduct; it might, for instance, encourage employees to covertly – and therefore falsely – 'improve' their ethical performance.

Drivers of an Ethical Culture

There are two primary ways to create and support the ethical culture of an organisation. The first is to adopt the *integration perspective* (Martin 1992) and create a

unified corporate culture around ethical values. The role of management is particularly important here for creating a clear strategy and code of ethics that will apply to all members of the organisation. It is based on clearly predetermined norms and values that are deeply embedded in long-term guidelines about how all employees should act (Sinclair 1993). Rewards, punishments, and rituals in the organisation are structured so that they reinforce this uniform culture. The second approach, however, is to adopt the *differentiation perspective* (Martin 1992), which focuses more on embracing different subcultures within an organisation. In this case, the role of management is to aim to understand and value all the different views held, instead of trying to impose one uniform culture on everyone; in this approach, everyone's differences are thus seen as an asset.

Neither of these approaches is superior to the other, nor exclusively recommendable – both have their advantages and disadvantages. A strong unified ethical culture can encourage commitment towards the organisation (Huhtala and Feldt 2016) and lead to lower levels of staff turnover (Kangas et al. 2016), but while a strong culture might indeed reinforce employee commitment, it can also lead to a conformity and rigidness which might make it harder for the organisation to adapt to changes (Sinclair 1993). In addition, a cohesive culture does not directly imply ethical conduct. Members might, for example, resort to unethical actions if they believe that these actions benefit the organisation as a whole (Umphress et al. 2010).

Benefits of the differentiation approach are that interactions between different groups in the organisation (e.g., monitoring or criticising) could actually cause members to behave more ethically. These subcultures can also act like positive 'social cocoons' (Greil and Rudy 1984), where organisational members can find ethical role models, like-minded moral colleagues, or other 'pockets of virtue' (Weaver 2006) that can support ethical behaviour and identification. The main disadvantages of this approach is the possible lack of implementation and risk that the microcosms might end up behaving unethically (Brief et al. 2001). If such microcosms are sufficiently isolated and those leading the organisation cannot create a shared foundation of core values, members of a subculture can begin to normalise their own (unethical) norms. New members may then become socialized within said subculture, making these unethical and divergent ways of behaving increasingly acceptable (Treviño et al. 2006).

Another way to define the drivers of an ethical organisation is to differentiate between the formal and informal factors that support ethical actions (James 2000). This can be done by focusing on individual organisational members and, for instance, providing them with ethical codes and training. However, these informal processes become efficient only when they are reinforced with organisational structures, such as official reward systems, evaluation criteria for work performance (including the kinds of actions allowed to reach work goals), and the different rights and responsibilities related to decision-making (James 2000). These formal official structures have a direct influence on employees and their actions and are determined by the leaders of the organisation. They can provide rules and concrete consequences (e.g., punishments and rewards) for actions, but do not give employees the

inner motivation to behave ethically. Culture itself is needed as an informal system to complement the formal structures. When both these components are aligned and balanced, they provide the best basis for supporting the ethical conduct of employees (James 2000).

Any attempt to change and strengthen the ethical culture should begin with a thorough assessment of the current situation. This should be done using standardized, validated measures (Treviño et al. 2017), allowing a reliable, comparable assessment that can then be used as a benchmark, when the procedures are evaluated over time. Once the existing ethical culture has been evaluated and recorded, the organisation should design and implement interventions that are targeted towards strengthening their ethical values and practices. The effectiveness of these interventions can then be evaluated by comparing how ethical culture ratings have changed from the earlier baseline measurements. This can create a continuous process where members of the organisation experiment and learn from previous interventions and develop new ones based on accumulating long-term evidence (Treviño et al. 2017).

One approach for planning these interventions is to target those dimensions of ethical culture that got the lowest baseline evaluations. These tailored procedures should include different elements depending on the specific weaknesses identified in the current ethical culture. For example, if organisational members were to give poor evaluations of the role modelling and behaviour of top management, this would indicate that the organisation should invest in training, coaching, and selection procedures for top management. If, however, the most prominent problems relate to a lack of clarity, the interventions should focus on creating more visible, coherent, and well-communicated ethical expectations for employees.

Approaches that focus on reinforcing these virtues even seem to be more effective in reducing unethical behaviour than traditional methods of ethical training. Tenbrunsel and Messick (2004), for instance, have criticised the narrow focus of more traditional ethics education methods as inefficient – training employees to take specific actions based on certain ethical principles is not enough, because people have an innate psychological tendency to fade ethics out of dilemmas they face. Because of this, employees would likely gain more from support that would increase their ethical awareness, i.e., their ability to recognize ethical dilemmas. Strengthening ethical virtues in the organisation, such as providing clear expectations, cultivating shared support and discussions about ethical issues, and promoting transparent actions between organisation members, can provide the consistent support they need so that they are not only conscious of ethical issues but also want to act upon them.

Because culture is a socially embedded, partly unconscious collection of deeply rooted values and assumptions, interventions might not always be easily or efficiently implemented. Values that have become implicit and taken for granted over time might well be difficult to even recognize, let alone change. One way to overcome this is to start from the more superficial levels of culture, such as the formal processes and ethical codes. For example, clarity – setting concrete and comprehensible expectations and norms for ethical behaviour – might be a virtue that can be

embedded and supported quite easily and with little extra investment by the organisation. It can also act as a cornerstone for all the other virtues and the ethical culture as a whole (Stöber et al. 2019). If members are clearly and convincingly informed about what is expected from them, it can make it easier for them to behave ethically. When ethical behaviour is supported with rewards (and unethical actions have visible, punitive consequences), a virtuous cycle is hopefully set in motion. New members will be socialised into these ethical expectations, and over time, shared practices can help to change the culture at deeper levels too. However, we still lack a broader understanding of how ethical culture might develop over time. This is because the field of ethical culture research has been heavily dominated by cross-sectional studies (even up to 90 per cent; for reviews, see Mayer 2014; McLeod et al. 2016; Huhtala et al. 2018). More work is thus necessary before we have reliable evidence on the best practices for strengthening ethical virtues over time. On a positive note, the scale for corporate ethical virtues has been shown to be time-invariant (Huhtala et al. 2016), so this means it can be used in longitudinal studies to reliably indicate any changes in strength of the ethical virtues measured.

Finally, when an organisation is planning any interventions or baseline measurements, these actions should also be ethically carried out (i.e., in line with the virtues mentioned above). There are two main reasons for this. First, we know that change can meet with resistance, and implementing it does not automatically guarantee that the proposed changes will be adopted (Dextras-Gauthier et al. 2012). One way to get employees more motivated and committed to the process is to involve them in it from the very start, and to treat them with openness, clarity, and transparency. Employees should not only have the chance to engage in open discussions, but also be provided with sufficient resources at work to actively participate in making those changes. Equally, supervisors and managers should set a positive example by the actions they take during the process. If as many people as possible 'practise what is preached' when implementing change, then new policies are not only more likely to endure, but also the ethical principles behind them will have been reinforced.

Role of Management in Supporting Ethical Culture

Managers have a key role in fostering the ethical culture of their organisation, and according to some scholars, they are possibly even the most important element in it (Treviño 1990; Brown and Treviño 2006). Managers essentially need to take conscious actions to create and support environments where ethical norms can emerge and flourish (Schminke et al. 2005). As discussed in the section defining the concept of ethical culture above, there are two main approaches to 'building' this ethical culture; these present managers with two very different tasks. Because the *integration perspective* aims at a unified corporate culture, it requires managers to define and introduce a clear ethical strategy and code that will apply to all members of the organisation. However, because the *differentiation perspective* embraces all the dif-

ferent subcultures within an organisation, it requires an understanding and appreci-
ation of the diverse ethical values in each subculture. In the latter case, human re-
sources management is especially important so that there is discussion between the
different subcultures and that they trust each other (Pučėtaitė et al. 2010). In both
these approaches, the managers have several options available to them for influenc-
ing others. For example, managers can exercise direct power by allocating resources
and by creating reward systems, ethical codes, and norms (Treviño and Weaver
2003); they can also indirectly influence actions by, for instance, choosing the cri-
teria for staff to make decisions, and by making value decisions – such as setting
strategic directions and aims for the organisation. Each of the above managerial
actions will have a significant impact on the ethical culture of the organisation
(Paine 1997; Giberson et al. 2009). Because of their influential role in making cru-
cial decisions, managers must also embrace the fact that they have the greatest re-
sponsibility for building and maintaining an ethical culture.

Regardless of the strategy the organisation follows, it is important to recognize
that managers will always be role models for other members whether they want that
or not. As well as making practical decisions, they are modelling and communi-
cating ethical norms and values to their followers via social learning due to their
position and status in the organisation (Bandura 1986). In the social learning pro-
cess, employees are influenced by observing – both consciously and unconsciously
– their managers as role models. They learn vicariously about appropriate behav-
iour by observing which actions attract positive or negative attention and which do
not. Several studies have supported this theory (e.g., Kaptein 1998; Brown and Tre-
viño, 2006; Mayer et al. 2009, 2010) – employees will watch for cues from manag-
ers about the kinds of behaviour that are acceptable and even mimic them.

Social learning can lead to positive effects, especially if the leader has a strong
moral identity (Aquino and Reed 2002) and a high level of cognitive moral devel-
opment. These personal qualities are more likely to be translated into actions where
the leader represents and explicitly communicates high ethical standards, engages
followers in discussions touching on ethical matters, and sets goals to achieve fair
profits rather than profit maximisation (Brown et al. 2005; Brown and Treviño
2006; Treviño et al. 2006). However, the influence of leaders can also be unethical
if, for instance, they lack moral awareness, do not have a personally meaningful set
of moral values, or highlight monetary goals above basic ethics. These less-than-
ethical values are likely to impact and spread to the employees (Sims and Brink-
mann 2003; Higgins and Currie 2004) precisely because the manager shows em-
ployees that unethical actions will go unpunished. This, in turn, exposes the organ-
isation to breaches of ethicality.

This managerial influence can occur at two levels. The first is at the level of
supervisors or line managers, who work directly with employees in their teams,
work groups, or units. The second refers to the more senior level, where managers
extend their influence beyond the immediate work groups. Both levels play an im-
portant role in ethical role modelling despite their somewhat different functions.
Supervisors often play a significant role in affecting employees' behaviour due to

their frequent, close interaction with them (Mayer et al. 2009). Employees who work in the same work community largely share their perception of their supervisor's ethical conduct (Huhtala et al. 2014) and this, in turn, adds further importance to the example shown. By the same argument, employees might find senior management somewhat distant, especially in larger organisations, so their ethical example might not be witnessed lower down the hierarchy (Falkenberg and Herremans 1995). In this respect, one could argue that direct supervisors (who can also be senior management in smaller organisations) have the most influential role in guiding employees' ethical behaviour. Then again, because of their higher position in the hierarchy of an organisation, senior management's example attracts the attention of a wider range of people and so more meaning and importance can be attached to it (Treviño and Weaver 2003). In this respect, both senior and floor managers/supervisors should act and be seen to act in accordance with the ethical standards they stand by – they must 'walk the talk' (Brown et al., 2005).

In short, it is the personal actions of managers – what they pay attention to, and how they react to critical ethical dilemmas – that really count. Managers who show ethical behaviour and exert moral authority are those who can create and sustain an ethical culture. Once these ethical values become cultural beliefs and norms that are collectively shared, then a virtuous circle is set in motion, making it increasingly likely for others in the organisation to be motivated to apply these ethical conventions in their interactions with others and decreasing the likelihood of misconduct (Mayer et al., 2010).

Outcomes Related to the Embeddedness of an Organisation's Ethical Culture

Finally, I will review some of the implications of an organisation's ethical culture for its members. Ethical culture is, by definition, a positive resource for any organisation. When members share and express ethical values, which are deeply embedded in daily practices, it provides several supportive resources for everyone. Ethical culture is 'rooted in virtues', as has been outlined in the section earlier. These virtues ensure practices which offer, for example, clear ethical expectations, support for ethical decisions, and the practical conditions for carrying these out – e.g., time and sufficient personal autonomy. It is possible, however, that both employees and managers have created a culture which lacks these virtues – characterised, for instance, by vague and ambiguous ethical expectations, insufficient resources to carry them out, lack of organisational support for them, and a general lack of discussion about ethical issues.

The most obvious effects of a strong ethical culture is that it decreases the likelihood of misconduct (Treviño et al. 1999; Kaptein 2011). Organisations that expect and encourage ethical behaviour are more likely to have employees who make morally right choices (Sims and Keon 1999). Indeed, most theoretical and empirical approaches to studying ethical organisational culture have focused precisely on this

– how best to decrease the likelihood of unethical behaviour; but an alternative or complementary approach is *positive* organisational scholarship (POS; Cameron et al. 2003). POS focuses on positive forms of 'deviant' behaviour, or 'intentional behaviours that depart from the norms of the referent group in honourable ways' (Spreitzer and Sonenshein 2003, p. 209). Verbos et al. (2007) have come up with a concept they call a 'living code of ethics', which is based on POS and refers to the cognitions, feelings, and behaviours of members that exceed existing ethical norms and expectations. This is a way of looking at the organisation's culture with a heightened awareness of ethical viewpoints and a positive attitude towards ethics.

Although ethical culture includes normative dimensions, which are thought to improve the ethical behaviour of employees and deter their misconduct, virtues can also promote other positive outcomes among employees. For example, there are a growing number of studies which focus on associations between ethical culture and wellbeing. It has already been shown that, for example, organisational justice can lead to a 13–48 per cent lower rate of absence through sick leave (Elovainio et al. 2002). A less ethical culture can also associate with increased experiences of ethical strain associated in turn with high emotional exhaustion (Huhtala et al. 2011). In addition, perceptions of a procedurally just and distributively fair organisational environment has been found to lead to higher job satisfaction and commitment (Treviño et al., 1998), which leads in turn to greater affective commitment and lower staff turnover (Baker et al. 2006). A good ethical culture can also reduce stress by reinforcing members' perception that their job is meaningful (Jaramillo et al. 2013) and mitigate the negative influence of an external locus of control for the job's meaningfulness (Mulki and Lassk 2019).

Poorly implemented virtues also increase the likelihood of unethical behaviour (Kaptein 1998, 2008, 2011) and create a stressful work environment. Organisations that suffer from virtue deficiency can be characterised by a certain vagueness and ambiguity about ethical expectations, by unethical leadership, and by the unfair treatment of its members (Kaptein 2017). For example, employees may be unable to carry out their responsibilities in an ethical manner because of limited resources, and unethical behaviour might be tolerated or even encouraged. It has been shown that when an ethical culture is weak, ethical dilemmas are faced with increasing frequency and stress is commonly felt in these situations (Huhtala et al. 2011). In such an environment, employees are also likely to experience reactions related to collective stress, such as higher emotional exhaustion (Huhtala et al. 2015). Poor occupational wellbeing has immense costs to both the individuals and organisations affected. Therefore, the potential of an ethical work environment that alleviates work-related stress among employees merits further study.

Ethical culture is by definition a socially created phenomenon, and (although this number is growing) there are only a few studies that apply organisation-, unit, or team-level hierarchical designs (Kaptein and Van Dalen, 2000; Kaptein 2011; Schaubroeck et al. 2012; Huhtala et al. 2015; Kangas et al. 2017; Huang and Paterson 2017; Cabana and Kaptein 2019). This growing number is a positive trend, as the existence of a culture surely lies within its social relationships – in other words,

in the shared values and norms that are created and reproduced through interactions among its members.

Conclusions

According to the survey results by the Yale Center for Emotional Intelligence (Ivcevic et al. 2020), almost one third of US respondents claimed they had witnessed unethical behaviour at their workplace – meaning it was an unhealthy work environment. There is thus clearly an urgent need to put more emphasis on studying those organisational contexts which are pushing people to take unethical actions. In this chapter several important aspects have been outlined that could help organisations, leaders, and employees to cultivate virtues which could help with this in their everyday work, and which could turn out to be a powerful counterweight to ethically questionable actions.

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