9 ETHICS IN ORGANIZATIONS

I think that we have to reinvent capitalism around a sense of mission—it can improve society by improving the lives of people.[1]

Roger W. Sant, co-founder and former chair of the AES Corporation (1931–)

Chapter Aims

This chapter will allow you:

- To acquire an introduction to institutionalizing ethics in organizations
- To reflect on the place of ethics in corporate statements
- To gain an understanding of corporate values and guiding principles
- To become more familiar with business codes of conduct
- To distinguish between compliance and integrity approaches for ethical training
- To discuss how to introduce ethics in the formal and the informal organization
- To gain familiarity with the concept of organizational culture
- To consider the 'culture gap' between the existing and the desired organizational culture
- To discuss which factors contribute to shaping ethical organizational cultures
- To gain an understanding of the ethical dimension of Information and Communication Technology (ICT)

Key Terms

Codes of conduct
Compliance
Corporate credos
Corporate culture
Corporate guiding principles
Corporate values
Corporate vision
Culture gap
Empowerment
Ethical training programmes
Humanizing organizational culture
Information and Communication Technology (ICT)
Institutionalizing ethics
Organizational culture
Organizational structure
Performance appraisal
Programme of compliance
Programme of integrity
Surveillance

Introductory Case
AES Corporation—The Founding Values of a Global Company[2]

Today, the AES Corporation, headquartered in Arlington, Virginia, USA, is one of the world's leading energy companies, providing affordable, sustainable energy to 15 countries through a diverse portfolio of distribution businesses as well as thermal and renewable generation facilities and employing 28,000 people worldwide. In 2017, AES revenues were US$11 billion and it managed US$33 billion in total assets. Its mission is 'Improving lives by providing safe, reliable and sustainable energy solutions in every market we serve.'

AES dates back to 1981, when Roger Sant and Dennis Bakke started a company called Applied Energy Services with US$1 million in venture capital. They had each earned an MBA at Harvard Business School and had worked together at the Federal Energy Administration of the United States. Later, they spent four years researching energy conservation and development at Mellon Institute in Washington, D.C. These entrepreneurs wished to build a company that was honest, treated people fairly and provided safe, clean, inexpensive energy. The firm would have to meet social needs and make profits. Roger Sant was the first CEO. In 1994, Sant became the chairman and Bakke the CEO.

In 1985, the first AES power plant was built in Texas and three years later two more plants were working. In 1991, AES listed on the New York Stock Exchange. Success triggered new developments within and outside the United States, including in the United Kingdom, Argentina, Pakistan, China, Hungary and Brazil. In 1993, AES was ranked the second-fastest growing NASDAQ company by *Equities* magazine. In 1998, it became an early innovator by acquiring a minority stake in a power plant in the first generation of privatizations in India. In West Africa and Central America, AES brought electricity to settlings that had never previously had reliable power while serving urban centres such as São Paulo and Indianapolis.

This rapid growth was compatible with the founding ideas and values. The company had to be sufficiently profitable to grow, but the supreme goal was not to maximize profits or share value but to act in accordance with their corporate values: have integrity, be fair, be socially responsible and have fun.

The last of these means really enjoying your work and meeting your potential through the work you do. A significant contribution to fun was empowering people. There was a regional manager in each country they operated in. Every plant had a manager too. He or she oversaw 5–20 teams within the plant, each containing about 5–20 persons, including the team leader. Teams had full responsibility for their area in terms of both operation and maintenance. Safety, implicit in the four basic values, was taken seriously and linked to strong economic incentives (a severe reduction or loss of bonus).

Sant and Bakke emphasized the relevance of being a values-driven company when they prepared the prospect for AES's initial public offering, which included the following statement in the risks section:

> An important element of AES is its commitment to four major 'shared' values: to act with integrity, to be fair, to have fun and to be socially responsible ... AES believes that earning a fair profit is an important result of providing a quality product to its customers. However, if the Company perceives a conflict between these values and profits, the Company will try to adhere to its values—even though doing so might result in diminished profits or foregone opportunities. Moreover, the Company seeks to adhere to these values not as a means to achieve economic success, but because it is a worthwhile goal in and of itself.[3]

Over time, the four founding basic values expanded slightly to five, explained as follows:

- *Safety*. We will always put safety first—for our people, contractors and communities.
- *Integrity*. We are honest, trustworthy and dependable. Integrity is at the core of all we do—how we conduct ourselves and interact with all of our stakeholders.
- *Agility*. We move with vision, speed and flexibility to adapt to our dynamic and rapidly changing world.
- *Fun*. We work because work can be fun, fulfilling and exciting.
- *Excellence*. We strive to be the best in all that we do and to perform at world-class levels.

In addition, AES tried to foster a culture of *win* ('We strive to win in everything we do'), *grow* ('We commit to growing our people, professionally and personally'), *team* ('We help others across our business lines and our support functions') and *speak with candour* ('We say what we think in an open and constructive way that moves us forward').

According to Anna Tavis, who in 2013 was the COO and executive vice president, 'These values are so critically important because they're not just words; they're expectations for how we want people to lead no matter where they are in the world and they truly resonate with our people globally.'

The founding corporate philosophy of AES has continued to be seen during the mandates of the two following CEOs, Paul Hanrahan and Andrés Gluski. Under Hanrahan's leadership, new pollution control technologies were introduced and the company entered into biomass conversion renewable energies. However, they came under criticism, as did other coal-based electricity producers. Andrés Gluski, the current CEO (at the time of writing), has continued the transition to being a more sustainable company by selling assets in coal and investing in wind and solar energy generation and storage. He was also concerned about improving lives through AES's essential services.

In late 2017, Jeffrey Ubben, activist investor and owner of ValueAct Capital Management, took a stake in AES and tried to obtain a seat on the AES board. He was very interested in the AES platform as a way to adopt cleaner and more efficient technologies. Gluski wondered what attitude to adopt.

Questions

1. How would you evaluate the founding ideas and values of AES from ethical and performance perspectives?
2. What purpose of the firm do Sant and Bakke have in mind? How was it implemented?
3. What do you recommend to Gluski regarding the giving of a seat on the AES board to Jeffrey Ubben?

Many companies have corporate values or guiding principles that are generally focused on ethics and performance. Corporate purpose or mission and vision statements can also include ethical values. In addition, companies often establish a code of ethics, a set of principles and standards or a list of good practices. Corporate statements are significant for institutionalizing ethics in the business organization, and these are supposedly intended to guide corporate governance and management and to promote ethical organizational culture (shared beliefs, values and practices). Section A discusses some aspects in institutionalizing ethics into organizations and their limits. Section B focuses on ethics in the formal and informal organization and in organizational culture.

SECTION A. INSTITUTIONALIZING ETHICS IN ORGANIZATIONS

The aim of institutionalizing ethics in organizations is to have ethics formally and explicitly in daily business life by adopting measures to prevent misbehaviours and to support and favour compliance or integrity. Some current practices for institutionalizing ethics in organizations include corporate statements, ethical policies, codes of conduct or ethical guiding principles, compliance manuals (relevant rules, policies and processes) and training programmes in ethics for managers and employees. Companies can also have a formally appointed ethics committee and hotlines to report irregularities or to ask for advice and ask suppliers for certification on ethical standards, among other measures.

Corporate values, when they are effectively implemented and guide the whole corporate activity, are particularly important, and the same is true of corporate purpose and/or mission statements and corporate vision, which can also contain values.

Integrating Ethics into Institutional Statements

Corporate Values and Guiding Principles

Some companies have an explicit set of corporate values. Others present their values through a 'Credo', based on a structure such as 'We believe … [values or action principles]'. Corporate values are usually expressed as a set of meaningful words or short, easy-to-understand sentences, perhaps accompanied by a brief explanation. Thus, Toyota, the famous Japanese car manufacturer, defined its values as an ideal that has already been achieved: 'We're hard-working. We're active in our community. We're committed to the environment. We celebrate our diversity. We're creating jobs. We're making history. We're building cleaner, greener cars.'[4] Ideally, all employees should hold corporate values and translate them into specific actions and decisions that they should make.

Corporate core values can vary significantly from company to company, depending on the industry, national culture, the specific features of each organization and leadership.[5] In practice, however, there are a few values related to ethics that appear in many corporate values statements. Thus, a report reviewing corporate statements on values found that 90 per cent of them reference ethical behaviour or use the word 'integrity'; 88 per cent and 78 per cent refer respectively to commitment to customers and employees; and 76 per cent mention teamwork and trust.[6] It has been suggested that some values should be taken for granted by any company that desires to be competitive.[7] Among them are *ethics* (integrity), *teamwork* (or collaboration), *authenticity* (leaders actually act and communicate in authentic ways), *fun* (including working hard) and being *customer-oriented* (or customer centric).

Some companies have guiding principles, instead of or in addition to values, describing specific patterns to be followed by people involved in the organization. Procter & Gamble is one of these companies with both values and guiding principles. The espoused core values of this firm are *integrity*, *leadership*, *ownership* (acting as owners), *a passion for winning* and *trust*. Additionally, it presents, as guiding principles, the following: 'We show respect for all individuals, the interests of the company and the individuals are inseparable, focused in our work, innovation is the cornerstone of our success, we are externally focused, we seek the best, we value personal mastery, and mutual interdependence is a way of life.'[8]

According to a global survey by Booz Allen Hamilton and The Aspen Institute of senior executives at 365 companies in 30 countries and five regions, publicly accessible corporate value statements can have an influence on corporate reputation, customer loyalty, employee recruitment, product quality/innovation, brand equity and supplier relationships.[9]

Corporate Purpose or Mission

As has already been mentioned (Chapter 6, Section B), many companies have defined and publicized their particular purpose—the way a company contributes to a good society, with a consequent ethical content—as a driver for their entire corporate activity. Some firms present their particular purpose as the corporate mission,[10] although nowadays a vast number have short mission statements, which express only some crucial feature of the company as a communication technique. Expressing the mission statement in no more than eight words has been suggested as good communication practice. In this line, Google presents the following mission: 'To organize the world's information and make it universally accessible and useful.' Tesla, for example, states theirs as 'To accelerate the world's transition to sustainable energy.'

While corporate purpose or mission statements are quite usual in large corporations and publicly announced, small and medium-sized companies might not have any written expression. However, every company is managed according to a certain idea about what they propose to do even when it isn't explicitly declared.

Corporate Vision

Related to corporate mission is the 'corporate vision', which in some companies is added to the mission. Corporate vision defines what the organization intends to be in the future. It reflects the view of the organization's desired characteristics, what it would like to achieve in the mid or long term. In this sense, we talk of 'visionary companies'—when their future is focused on magnanimity or presented though original ideas or innovative perspectives. Corporate vision is therefore different from mission, although there is often confusion between the two. While mission explains what the organization is doing now, vision is a description of aspiration.

Corporate vision is frequently presented through a few challenging and easily remembered targets or concepts to encourage people within the organization to advance towards a certain desirable form of conduct or goals. Thus, Procter & Gamble defines its vision as 'Be, and be recognized as, the best consumer products and services company in the world.'

Drivers with Ethical Content

Corporate core values, together with corporate purpose or mission/vision, could give a clear indication of the business philosophy of each company. They usually contain elements related to ethics and/or efficiency.

Integrating ethics into corporate values, mission and vision is an important step towards making it present throughout the entire organization, including in its corporate governance, management and organizational activity. However, these corporate statements are only the desires of the organization or maybe only a 'window dressing'. Enron (Chapter 1, Case study) is a paradigmatic example of neglecting corporate values.[11] However, many companies do take their corporate values seriously—which is the case for AES, a company operating in the energy industry (see the Introductory Case of this chapter).

There are companies that take corporate purpose or mission so seriously that the whole management and corporate governance are based on it. In this sense, 'management by missions' has been proposed[12] as a compass for every corporate activity, in contrast with 'management by objectives', which was quite popular in the second half of the twentieth century. Management by missions involves sharing the corporate mission around all levels of the company. This includes specification of the mission in such a way that each area of responsibility within an organization should have its own mission consistent with the mission of the whole company.

Corporate mission is, then, the basis for the formulation of *business strategy* by which a company selects its long-term goals and decides upon the allocation of resources. Strategy is generally related to meeting market needs and stakeholder expectations and to obtaining a competitive advantage. This can include a set of multi-year programmes that are subsequently developed and entail objectives, policies, plans, organizational structure and the corresponding implementation. Under this approach, corporate mission also informs corporate structure in executing strategies and organizational policies, including managerial systems, procedures, practices and day-by-day management.

Codes of Business Conduct and Their Implementation

A code of business conduct, sometimes called a code of ethics, is a corporate document that develops the core values or the guiding principles of a firm. It specifies criteria and rules for the correct handling of business dilemmas, issues or situations in which it is considered particularly important that managers and staff follow certain procedures approved by the firm's management. A great number of companies, particularly the largest ones, have implemented codes of conduct. In some countries and industries, they are legally mandated for listed companies.

Are Corporate Codes of Conduct Useful?

The immediate goal of these codes is to articulate the institutionalization of certain rules of conduct within the firm and to facilitate their internalization by managers and staff. A corporate code of conduct is not therefore a compendium of ethical norms; it expresses only what top management considers should be done for the good of the company and reflects what a company expects from its employees. The content of business codes can vary in accordance with the specific needs of each organization. Usually, this includes ethical issues, employee duties and rights and accountability to stakeholders. Although a code of conduct is not a panacea for improving ethics within organizations, having one can bring several benefits for the firm. Among them are the following:

- *Helping to articulate values and criteria*. This is especially relevant during the process of writing the code. A thoughtful debate can strengthen the commonality of goals and interests among the firm's areas and opens a process of reflection on whether these values can be manifest in concrete aspects and situations; that is, whether they are really operational.
- *Sending an ethical message to the organization*. The serious implementation of a code of conduct sends a message to the organization about the behaviour that is expected. While accepting that financial targets and the income statement are important, it is a warning that not all means are licit for achieving these goals.
- *Providing guidelines for decision-making and dilemmas.* Codes facilitate professional and managerial decision-making in accordance with ethical criteria for anyone who is part of the firm. They also provide guidance when one is faced with dilemmas. In this sense, they can help provide a framework for the employees' ethical judgement when exceptional situations arise.
- *Preventing abuses within the firm*. A code provides employees with a tool that limits their supervisor's or manager's power and that they can use to affirm that certain conduct is not permitted.
- *Fostering corporate identity.* A code can be a tool to reinforce corporate identity and to favour an ethical culture (see Section B). This is particularly beneficial for large or multinational firms and during merger or takeover processes, where cultural clashes can arise.
- *Favouring corporate reputation*. A code gives a public image of commitment and responsibility, which favours corporate reputation. This is an intangible asset that is increasingly valued. It is particularly important for large firms that carry high societal expectations.
- *Helping to avoid litigation against the firm.* Codes provide means to help the firm avoid costly litigations due to employee wrongdoing.

One possible objection to a code of conduct is that it might conflict with the personal values of the organization's members. In practice, this objection is not generally of great concern if the code has been drawn from universal ethical values, good practices of the best companies and recommendations of people and institutions of acknowledged moral reputation. Additionally, if the personal values or virtues of those members are weak, the company itself could have problems with misbehaviour or crimes. This is why a firm might want to implement a code of conduct that reinforces certain minimum ethical standards for its people. A wide-ranging dialogue in drawing up the code facilitates the understanding and acceptance of its contents.

In the case of operating in countries with different cultures, it might be possible to draw up a code that is firm on certain minimum ethical standards that must be upheld at all times (respect for human dignity, human rights and other basic ethical norms for business) but could be flexible on lesser points. This allows a degree of elasticity in interpretation without losing sight of the basic values on which the code is founded.

Basing the code on universal ethical values also offers the advantage of making it easier to achieve consensus on the content and to be more certain of doing what is right. Indeed, most multinational companies are interested in developing a code of conduct: it enables them to integrate all of their subsidiaries more securely into the company's philosophy. To manage cultural diversity within the firm, it is not enough merely to acknowledge and respect it: it is also necessary to standardize the criteria for action to ensure that the firm retains credibility and offers consistently good service everywhere.

It is frequently asked whether codes are effective for improving ethical behaviour or, at least, for preventing misbehaviour.[13] Having a code of conduct in place is no guarantee that everyone will act ethically at all times. However, it cannot be definitively said that codes do not dissuade people from unethical conduct. Perhaps the key is using these codes along with other means[14] within the context of a real corporate ethical philosophy applied to the whole organization.

How to Implement Codes of Conduct?

For the effective implementation of a code, several recommendations can be given:

- *A careful elaboration of the code*. In practice, there are several elements recommended in the elaboration of a code to contribute to its effectiveness, such as a clear, achievable and realistic purpose, a written senior management commitment, a strong motivation for the implementation and being well written and understandable.
- *Involvement of the top management*. Top management has a role in the development of the code and during its implementation and roll-out throughout the organization. The common method is a letter from the CEO introducing the code. Additional means are also employed: a special event organized for the presentation, a video from the CEO showing a firm commitment, as well as frequent messages from senior management to the members of the organization stressing the code's validity.
- *A broad and effective process of communication and dissemination*. This can be done, for instance, by presentations, workshops and seminars, videos, posters, a corporate website or an annual mailing to all employees.

- *Creating the position of ethical affairs officer or 'head of compliance'.* This is a specific senior management position with the mission of monitoring and implementing the code, including all matters related to communicating, training in and applying it.
- *Providing a direct line.* This could be a telephone number or email address for questions and remarks to the ethics officer or even to report misbehaviours or violations of the code. In the latter case anonymity or confidentiality should be guaranteed.
- *Training.* For a code to be effective, not only information but also training is required. This can be part of an ethical training programme (Section B).
- *Monitoring and auditing.* This includes several means for monitoring and reporting how the code is applied and auditing misbehaviours, inside or outside the company.

Corporate Compliance and Integrity in the Organization

Avoiding misbehaviours and promoting positive values should be important managerial concerns. This can lead them to establish corporate compliance and/or corporate integrity.[15] Corporate compliance refers to a set of rules or requests that ensure that everyone in the organization follows legitimate commands and legal or reputational risks are avoided.

Corporate compliance is generally managed by a specific department or office. According to the World Compliance Association, this department has five key functions: (1) *identification* of risks, (2) *prevention* of these risks, (3) *monitoring and detection* of the effectiveness of compliance, (4) *resolution* of compliance difficulties as they occur, and (5) *advisory* function on rules and controls.[16] Corporate compliance, now quite popular, has antecedents in the US Sentencing Guidelines for Organizations ('the Guidelines'), promulgated in 1991, which encouraged organizations to implement appropriate compliance programmes to prevent wrongdoing from occurring in the first place. Organizations that could demonstrate they had taken compliance measures would receive a more benevolent treatment than those that had not, in the case of falling foul of the law. Many companies integrate legal commands with corporate codes of ethics, creating ethical offices within the corporate structure.

In some countries, the implementation of compliance is compulsory. In Europe, the legislation requiring corporate compliance arrived in the 2000s and it has now been widely implemented and many European companies have integrated compliance offices into their structure. Beyond the legal obligation, corporate compliance has the function of preventing risks due to misbehaviour within the organization.

Underlying the compliance approach is often a vision that people's behaviour responds exclusively to self-interest; additionally, individuals are seen as being responsive to the personal costs and benefits of their choices. Compliance can be a first stage for an ethical culture by helping to avoid misbehaviour, but, as Fontrodona and Sanz suggest, 'the best way of avoiding unethical behaviour is not to define what not to do in a strictly legalistic sense, but rather to encourage the desired positive behaviour that leads to integrity for all.'[17]

As an alternative to a developing *programme of compliance*, companies could develop a *programme of integrity* based on fostering values and virtues. Underlying integrity there is the recognition of people's self-governance in accordance with a set of guiding principles. It also includes obeying laws and rules, but as a positive aspect of organizational life not an external imposition.

Focusing on the law and overemphasizing the threat of detection and punishment in order to channel behaviour in lawful directions could be useful in certain situations. However, as Lynn S. Pain stated, experience shows that the compliance approach, rooted in avoidance of legal sanctions, is not enough to create a company-wide climate that encourages and supports ethical behaviour.[18] She suggests an integrity-based approach to ethics management, which combines compliance with an emphasis on managerial responsibility for ethical behaviour to create a fully ethical culture. As we will discuss next, these two orientations—compliance and integrity—determine two types of ethical training programmes.

Ethical Training Programmes

Many firms have introduced ethical training programmes. Methods used can include seminars, discussion groups, workshops and online training. Role play and case studies based on real situations in the organization are very common, along with anecdotes or histories as examples of how people should make a decision or act in the workplace. Corporate codes of conduct can contribute to compliance and even to integrity if they are implemented properly. An obvious but crucial point is that if a code is adopted, it must be followed; otherwise, it sends negative messages both within and beyond the firm.[19]

The goals of these programmes are principally to communicate and explain the company's policy on business ethics, to train people to apply the code of conduct, to express to employees the importance senior management places on ethical behaviour in the workplace and to enhance employees' awareness of ethical challenges they might face at work.[20]

As noted above (in this section), two main orientations for ethical training programmes can be distinguished: compliance-based and integrity-based (oriented to values). The former tends to reduce discretion while emphasizing auditing, controls and penalties. The latter focuses on education, leadership, accountability, organizational systems and decision processes without forgetting auditing, controls and penalties.

The training programmes are given by people from within the firm or by external experts. There is no universal agreement about which is better since each has its benefits. The best option is probably internal trainers, perhaps with some external support, since insiders are more knowledgeable about the company's specific culture, its routine operations, and so on.

According to some findings,[21] ethical training programmes, mainly those focused on compliance, are, under certain conditions, effective for reducing unethical and illegal behaviour and increasing awareness of ethical issues. Moreover, they bring about more ethical awareness within the firm, greater willingness to deliver bad news or report ethical/legal violations to management, better decision-making and increased employee commitment. However, their effectiveness can decrease if staff believe that the code exists only to protect top management and the employer's self-interest. In contrast, effectiveness increases when there is a real leader's commitment to ethics, fair treatment of employees, rewards for ethical conduct, concern for external stakeholders and consistency between policies and actions.

SECTION B. ETHICS IN ORGANIZATIONS

The corporate mission or the purpose of the firm is made effective through strategies and organizational structures along with other formal and informal elements that shape the organization. Another important element, in some way embedded in strategy and organization, is culture.

The Ethical Dimension of the Strategy

Strategy, in the business context, refers to ends that are sought in conditions of uncertainty and the means intended to achieve these, including people and material resources. In strategies, two aspects are generally distinguished: formulation and implementation. The *formulation* of strategy involves defining the objectives to be achieved, after having previously analysed opportunities to compete in a local, international or global market and the potential of the company to do so. In the *implementation*, action plans are introduced to achieve the objectives established in the formulation of the strategy.

The formulation and implementation of the strategy are human actions and, like any other, are not ethically neutral if you consider content and consequences. The ethical dimension of the strategy is related to the fact that any strategy has a certain impact on people in terms of respect and service provided through goods and services. Furthermore, strategy hopefully will generate incomes, which are necessary to maintain jobs and maybe to create new ones, to provide a fair return to investors, and to favour other ends of the firm (Chapter 6, Section B). All of these also have ethical content. Consequently, analysing a strategy in terms of economic goals is important, but this is only one aspect of reality. Reflecting on the ethical dimension of the strategy prevents the risk of adopting an economistic stance with nothing considered other than the competitive advantage to be gained or the rise in economic value to be achieved.

Since strategy does have an ethical dimension, it is advisable to consider its morality. This requires evaluating the morality of the product we want to introduce, the service or harm it will do to people and the implications of justice in the pursuit of competitive advantage, avoiding, for instance, unfair competition (Chapter 6, Section A; Chapter 11, Section B).

One significant aspect of strategy related to the common good of the firm is its short-term or long-term focus. A short-term orientation can have negative consequences in the long run if getting immediate results is at the cost of a negative impact on aspects such as employee training, motivation and morale, or lack of respect for people inside or outside the company or for the environment. A short-term outlook may also be unsatisfactory for customers or deteriorate the reputation of the company.

While the mission is relatively permanent, strategies tend to vary over time depending on the internal and external circumstances of the company, including its perceived business opportunities.

Ethics in Formal and Informal Organizations

Strategy is closely related to the organizational structure, which formalizes how to achieve strategic and other corporate aims. Organizational structure includes activities of allocation, coordination and supervision, and the way in which staff will be supervised. The structure is generally composed of hierarchical dependencies, formal networks, assignment of responsibilities, processes, systems and reporting relationships established within an organization. Other elements of the organizational structure are procedures of welcoming new employees and initial and subsequent socialization, manners and contents of internal communication, training, criteria for allocation of rewards and status, policies and practices in dealing with seniors and retirement, and a process and definite criteria for dismissal as well as performance appraisals involving individual and team performance.

Organizational structure focuses on facilitating working relationships within the firm in order to achieve business goals efficiently. But beyond efficiency, every organizational structure has an ethical dimension due to the people who work within it. An organizational structure is not ethical if it fosters wrongdoing or disrespect for human beings, their rationality and freedom, their intrinsic dignity and innate rights. In contrast, the structure is ethical if it favours good behaviour and provides opportunities for the personal growth of those involved, including the development of virtues.

There is abundant empirical evidence that organizational structures encourage ethical behaviours or foster misbehaviours.[22] Three aspects of formal organizations can be especially influential in ethical (or unethical) behaviour: (1) the organizational rewards system; (2) the performance and evaluation processes, along with control and monitoring; and (3) the system of allocating decision-making rights and responsibilities,[23] including people empowerment. We will briefly review some of these aspects from the ethical perspective.

Rewards System, Performance Appraisal and Control Processes

This refers to all kinds of monetary rewards, promotions, prizes, awards and other forms of public recognition. The organizational structure contains reward systems, mainly monetary, as incentives to foster certain behaviours, and this is often a powerful means, though the compensation system rarely rewards ethical behaviours. In practice, the noblest ethical actions, such as helping peers or acting with a real sense of service, are neither public nor economically motivated.

A problem arises when, in practice, financial or other compensations reward misbehaviours; for instance, paying kickbacks or even issuing fraudulent financial reports.[24] This occurs when organizational compensation practices are not carefully planned. Sometimes, the origin of misconduct is a lack of awareness of what a certain reward might actually incentivize. In practice, numerous rewards systems unintentionally incentivize actions that their designers had no intention of rewarding.[25]

The performance evaluation and monitoring and control processes for individuals and business units are also ethically significant—especially the *performance appraisal*, or the method by which the performance of a manager or employee is evaluated. Performance appraisal is usually done in terms of quality, quantity, cost and time, and values expected. The last of these might be evaluated only indirectly. The evaluation process can reinforce the idea that ethical behaviours are expected, while unethical ones are rejected or, at least, not rewarded.

The performance appraisal can fail to monitor managers and workers adequately and permit imprudent actions or performance inconsistent with what would be ethically desirable or harmonious with corporate ethical values. While giving autonomy and initiative is consistent with respecting freedom, a prudent monitoring is also necessary. The well-known collapse of Barings Bank[26] due to the imprudence of a young brilliant broker is an illustrative case of lack of monitoring. *Incentive systems* (rewards) and organizational pressures for results accompanied by weak encouragement and monitoring of ethical standards can foster wrongdoing.

What the company measure is an important source of motivation for good and bad behaviour. If people are pushed only in the direction of quantifiable goals through 'strong' incentive systems that reward the quantitative results, it is very likely that they will not pursue the 'real' objectives of the firm but seek to maximize the thing measured instead, which may well be at the same time unprofessional and unethical. Take, for example, the 2015 Toshiba scandal, which was due not to occasional misbehaviour but to the whole reporting and reward system.[27]

Empowerment with Moral Guidelines

Some research findings show that people in an organization behave unethically when they perceive themselves as having little power and control over decisions or conduct, although they realize that some of their decisions are not ethically correct.[28] Moreover, lack of specific moral guidance from the organization, together with ambiguity of expectations, can create moral stress in decision-makers.[29]

People within the company have certain *empowerment* (Chapter 10, Section B) to make decisions, but at the same time they may suffer significant pressures, which can have an influence on their ethical or unethical behaviour. Several organizational factors could contribute to misbehaviours. These include emphasis on results, pressures to meet unrealistic performance targets, upper and lower cut-offs or bonus plans, non-existent internal control systems, environmental changes that render existing control ineffective and high levels of divisional autonomy.[30]

All of this suggests the need to give reasonable empowerment but to accompany this by clear ethical guidelines or, even better, to ensure that decision-makers have a strong degree of integrity.

Ethics in Informal Organizations

Managers, supervisors, peers and different co-workers play a role in shaping the informal organization, which can contribute to creating a certain ethical climate in the organization, or the contrary. Actions, behaviours, conversations or informal practices can contribute to developing it and to motivating people in the organization in positive or negative ways.

Creating an ethical climate generally depends on the commitment to ethics and ethical behaviours of managers, especially top managers, and their clarity and ability to communicate with people in the organization about ethics and values. Leadership is also crucial. Treviño, Weaver, Gibson and Toffler (1999) have found two pillars in what they called 'ethical leadership'. The first is a leader with moral traits (integrity), ethical behaviour and decision-making, which incorporates ethical values. The second pillar is being a visible and positive role model in the firm.

Ethics Principles in Designing Organizations

Organizational structure can be evaluated not only from the perspective of efficiency but also from those of the human and ethical, including respect for human dignity, freedom and sociability and how they may or may not foster the capacity of employees to contribute to the organization with their talents and to develop themselves.

To design formal organizations that would humanize work and business organizations, and therefore improve their ethical quality, is an ongoing ethical challenge. Reflecting on some ethical principles can help in the design of more ethical structures. We will review three of them here: solidarity (cooperation within the organization), subsidiarity and participation (Chapter 2, Section B). These apply to formal structures but, up to a point, also to the so-called informal organization. This refers to the interpersonal relationships and networks that develop inside an organization, which include a variety of associative elements; for instance, informal agreements, ways of cooperation, fellowship or even friendship, cliques, and so on.

Cooperation, Subsidiarity and Participation Within the Organization

Organizational structures should harmonize efficiency with ethics. Ethics in organizational structures leads one to consider the human dignity and people development within the organization, the uniqueness of each person, and the diversity of different groups of people.

Cooperation within the organization is not only crucial for performance, as Chester Barmard pointed out at the beginning of management thought,[31] but also desirable from an ethical perspective because it expresses concern for others and favours willingness to contribute to the common goals, which are good for all. Cooperation entails helping each other with special concern for those who, for some reason, may need more help.

Acting with freedom, and the corresponding responsibility, is crucial to personal growth. Respect for employee freedom requires both accepting diversity and personal or group initiatives. This is required by the Subsidiarity Principle (Chapter 2, Section B), which states that a larger and higher-ranking body should not exercise functions that could be efficiently carried out by a smaller and lesser body. Rather, the former (management) should support the latter by aiding it in the coordination of its activities with those of the larger community, always in accordance with the common good. For an organization, this means: Do not allow a large organization to take over what can be done by smaller groups or organizations, or even by individuals, but give them support to develop their potential.[32]

One consequence of this principle for organizational structures is that the personal autonomy of employees should be respected and harmonized with the achievement of the organization's more general goals. Employees should enjoy freedom to organize their work as much as possible, taking initiatives and making decisions within the scope of their responsibility. Management should be supportive of (subsidize) employee initiative, maintaining—at the same time—appropriate coordination of this with common goals and ethical guidelines with a view to the common good.

Applying subsidiarity in ways appropriate to each company and culture not only is ethically praiseworthy but also contributes to enriching the work of employees and often motivates them—thus, the company benefits from the superior performance.[33]

The Participation Principle takes into consideration human rationality, freedom and the existence of differentiated goals and interests of people within the organization.

Within business organizations,[34] participation exists when employees have some sort of share in the company that hires them, especially in the decision-making process when it touches on topics they are affected by. Participation in the decision-making process is not rigid. It can adopt different forms, depending on particular situations, types of decisions, as well as the individual's personal background, training and experience.[35]

Among the different forms of participation, one of the most elemental is asking for suggestions or help in defining problems and making possible improvements. Many companies have, in fact, established a suggestion system for all employees or for a select group of them. Other ways to augment participation are empowering employees to make decisions on a significant number of issues, creating groups of experts to survey employee opinions on relevant topics, or including employees in the decision-making process of organizational aspects of their work.

Participation can also be promoted by 'quality circles'—that is, groups of employees who meet regularly to discuss workplace improvements in matters such as product quality, occupational health and safety, the manufacturing process and product design. Employees can also participate, to some extent, in hiring co-workers, designing work tasks, assessing new technologies, formulating budgets and measuring performance.[36]

Another means of participation is placing employees who are not top managers on the board of directors or on a supervisory board (this is the case in some large German corporations). In this manner, employees' representatives can influence decisions on corporate governance. However, this is not a universal requirement of the Participation Principle and possible consequences should be evaluated.

New Organizational Forms

There are currently theories and practices, generically known as 'new organizational forms',[37] that seem more aligned with the aforementioned ethical principles than the previous forms. Some of these current proposals encourage employees to work as a manager within their scope or to have more autonomy. These can foster greater cooperation and initiative, which seems more aligned to human development than other more conventional methods. However, with the fourth industrial revolution, smart factories and an increasing use of robots posit new questions on organizational structures and how to organize human work (Chapter 10).

This contrasts with the old *bureaucratic structures*, with strong hierarchy and rigid procedures to follow, and *functional structures*, in which people are grouped into functions such as production, marketing, human resources, finance and accounting. Employees become specialists within the function to which they are attached, and this can improve efficiency, but cooperation beyond strict rule can be eroded and some employee talents undervalued. It might also lead to communication difficulties, with slow processes, inflexible behaviours and strong depersonalization—aspects that are certainly relevant from an ethical perspective.

Organizational Culture and Its Ethical Content

Organizational culture is a part of business reality, not a statement of ideals like a corporate mission or values. It is a sociological concept related with common beliefs, values and practices of people within an organization. Organizational culture has been described, in very simple but intuitive words, as 'the way we do things around here'[38] and also as an 'amalgam of beliefs, ideology, language, ritual and myth'.[39]

The notion of organizational culture was introduced in the early 1980s,[40] when researchers were asking why US corporations had lower performance than their counterparts in Japan although productivity methods, technology and other factors were quite similar. The response was that culture, both national and organizational, could explain such differences.[41] Today, there is increasing evidence that organizational culture is a determinant of performance through employee behaviour and decision patterns, especially when the culture is strong.[42]

The notion of culture is older among anthropologists, who usually understand it as explicit and implicit patterns of human activity and behaviour shared by all or most members of a group, something that older members of the group usually try to pass on to the young.

Edgar H. Schein, an outstanding author in the field, believes that the culture is the most difficult organizational attribute to change.[43] He distinguishes three levels of organizational culture. The first is *beliefs*, understood as assumptions or convictions about human beings, the firm and its purpose in society and even a vision of the world in general. The second level is *values*. Both beliefs and values are hidden but constitute the core of the organizational culture. The third is a set of *visible artefacts* such as practices, rites, symbols, norms, organizational climate and other observable phenomena, including how people interact, how technology is used, the physical layout of work spaces, and so on (Figure 9.1). Organizational culture is ethically relevant since beliefs, values and practices have an ethical dimension and show how people within the organization have internalized ethical values and express virtuous behaviour.

Among the observable aspects of culture is the 'organizational climate', which many employ as a first empirical approach to the organizational

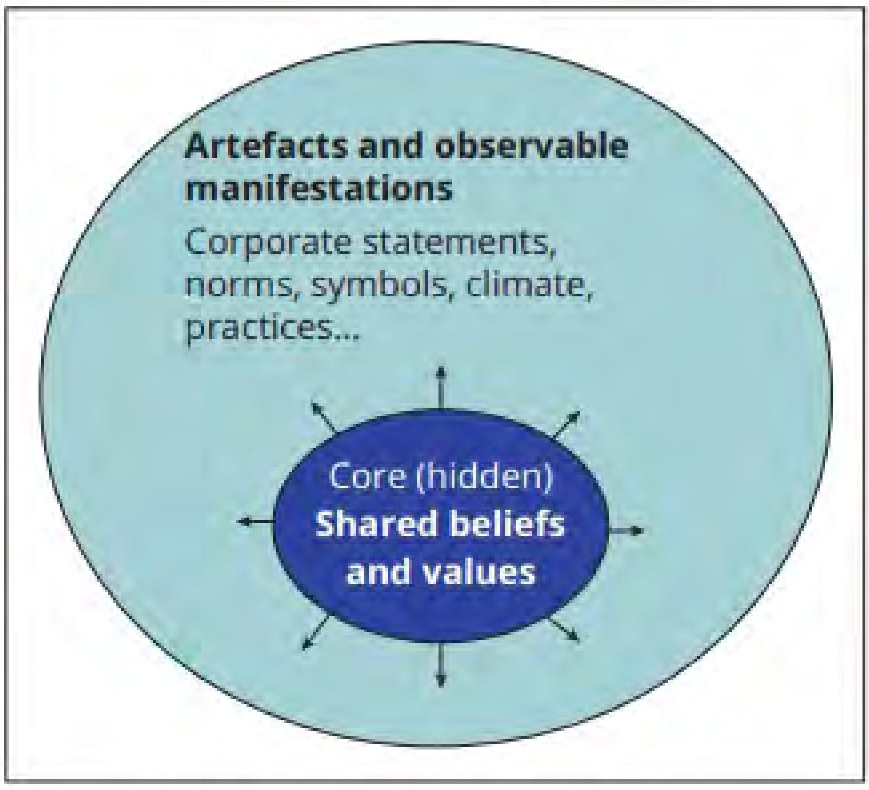

Figure 9.1 Observable and hidden constituents of a corporate culture

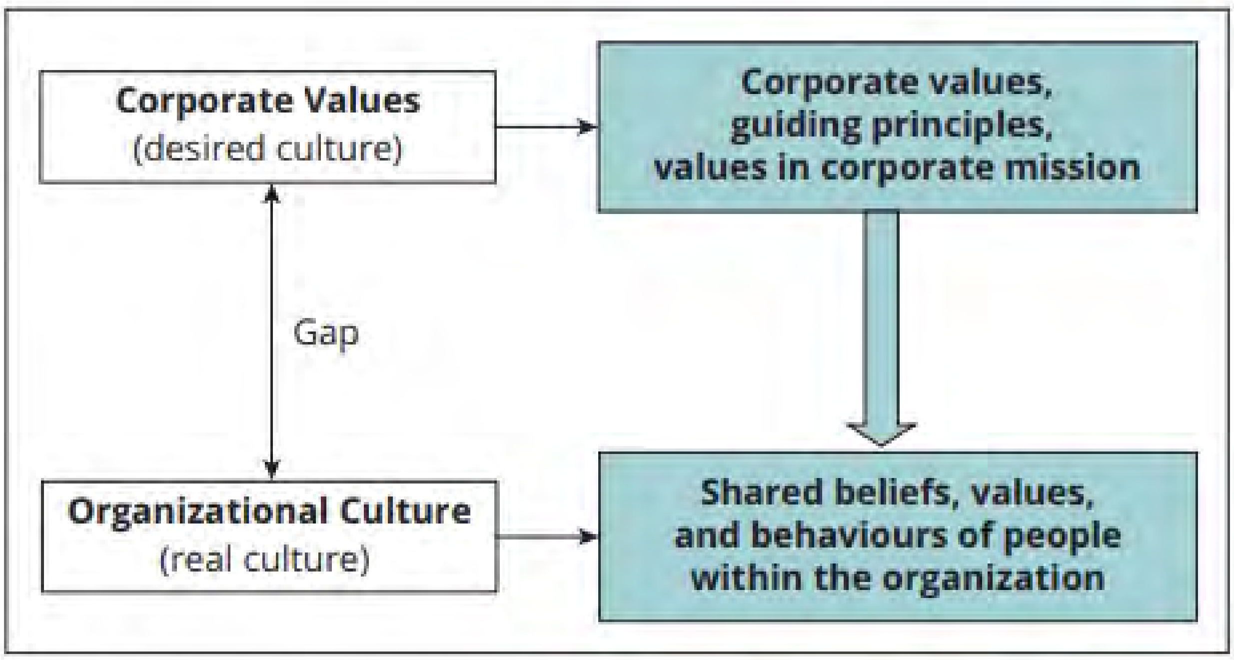

Figure 9.2 'Gap' between corporate values and organizational culture

culture. It refers to perceptions of an organization's members regarding the atmosphere in the firm. One way to measure organizational climate is through questionnaires that typically include eight dimensions:[44] (1) autonomy in work; (2) cohesion (perception of togetherness or sharing within the organizational setting); (3) trust; (4) resources (perception of time demands with respect to task competition and performance standards); (5) support received from superiors; (6) recognition of members' contributions to the organization; (7) fairness (perception of justice in organizational polices); and (8) innovation (encouragement of creativity and risk-taking).

Corporate statements, particularly corporate values, are different from organizational culture. The former is the ideal desired by those who lead the corporation, while the latter expresses a sociological reality.

Organizational culture can be easily perceived when dealing with a firm's people, especially when the organization has a long history. There are many kinds of organizational cultures; practically every company has its own, be it strong or weak, and this influences its behaviour. There might also be subcultures within the same organization, depending on countries, areas, leadership, and so on. The degree to which values and beliefs are shared determines the strength of the culture. Only if a widespread consensus exists on these values and beliefs is the culture strong and cohesive.[45]

In practice, there is generally a certain 'culture gap' between the desired organizational culture espoused in corporate statements (such as corporate values, guiding principles, corporate mission and vision) and the existing organizational culture, that is, between desired behaviours and shared beliefs and values and behaviours actually observed in people within the organization (Figure 9.2).

Another aspect studied by researchers is how the ethical behaviour of an organization's members is influenced by the corresponding organizational culture. This is especially clear with misconduct, although organizational cultures can also have a positive influence.[46]

Cultures that foster ethical behaviour can be called ethical organizational cultures. A culture that specifically recognizes and respects human dignity and rights and fosters personal flourishing might be called a *'Humanizing organizational culture'*.[47]

The question arises of how to develop ethical organizational cultures. This, in turn, leads to a more generic question and one we consider in the next subsection: Which factors have an influence in shaping organizational cultures? The answer is complex since a number of factors can contribute.

Factors in Shaping Ethical Organizational Cultures

Organizational culture is built up by people interacting within an organization, but many experts see leadership as a crucial factor.[48] Some institutionalized procedures, events or practices can also contribute to shaping organizational cultures, and this can be extended to ethical organizational cultures.

Impact of Leadership

Leaders have a central role in shaping the organizational culture and also in shaping informal organizations (in many aspects, culture and informal organization overlap). Leaders communicate beliefs and values but—above all—they are role models, for better or for worse. Setting a good example, especially (but not only) in top management, is probably the most important factor in creating an ethical culture. Leaders contribute to this by showing consistency between what is said and what is done, by exhibiting a sincere concern for people in the way they treat them, by coaching collaborators, and so on. Subordinates also observe what the leader pays attention to, what measures and controls they apply and how they react to critical incidents and crisis situations.

To influence in developing a culture of integrity, the leader has three basic elements to employ in developing a culture of integrity, through a consistent leader's thoughts, words and actions.[49] The leader first needs integrity in their thoughts with well-defined ethical values that are communicated and translated into clear objectives. Second, integrity in their words, that is, telling the truth and being consistent with their thoughts. Lies and hypocrisy break credibility and trust. Third, coherence in the action, that is to say, 'walk the talk'. Not doing what one articulated in words is a bad message for followers, who encourage good behaviour.

Other Factors in Shaping Ethical Organizational Cultures

Apart from leadership, other factors can have an influence in shaping ethical organizational cultures. Drawing from the proposals of experts and common experience of top managers,[50] we suggest the following:

- *Corporate mission, vision, and values.* Well-defined mission, vision and value statements constitute a clear message to the organization when accompanied by a serious commitment to implementing them. Reaffirming existing values in different ways and applying them to everyone throughout the organization are good ways to build up organizational culture. If corporate values are ethical and the mission and vision are ethically correct, these corporate statements will contribute to creating an ethical organizational culture.

- *Rightly implemented codes and ethical training.* As we have already discussed above (Section A), codes of conduct can also contribute to developing an ethical culture of compliance as long as they are implemented properly; and a sound ethical training is another way to develop an ethical organizational culture.
- *Ethical criteria for recruitment, selection and promotion.* If the culture depends on people, and chiefly on managers and supervisors, it is relevant to consider ethical criteria and virtues in recruiting, selecting and promoting people in an organization.
- *Applying ethical values to decision-making.* Organizational culture is shaped by a consistent incorporation of ethical corporate values in strategic decision-making and in the corresponding goals, policies and programmes. These must also come into play in decision-making at all levels of the company; otherwise, corporate values remain ineffective and people understand that they are only a matter of rhetoric.
- *Ethics in the organizational structure.* Integrating ethical criteria into intra-organizational procedures and structures (see above in this section), particularly in managerial systems of control and personnel policies and practices, is another way to bring ethical values into the everyday routine.
- *Ethics in the behaviour of employees and in the informal organization.* The day-to-day life of an organization is also relevant. It includes the personal styles, behaviours and interactions of people working within the organization. This is an important part of the 'informal organization', which can contribute to shaping an ethical organizational culture if such styles, behaviours and interactions are embedded with ethical values.
- *Ethical criteria in customer relations.* Focus on customer treatment, service provided to clients, reactions to customer complaints and competitive practices employed all shape the organizational culture.
- *Symbols, events and rituals.* Language used (for example, 'human resources' as opposed to 'people' or 'collaborators'), stories about the founders of the company, great leaders, exemplary employee behaviours, symbols, special events and celebrations, 'rituals', awards, and so on can also influence the shaping of an organizational culture and therefore of an ethical organizational culture.

ICT in the Organizational Context

Information technology (IT) refers to the development, installation and implementation of computer systems and applications. It entails the use of computers and computer software, which includes the programmes, procedures and documentation that perform the functions of a computer system. Often, the process of communicating information is also emphasized and IT is termed *information and communications technology* (ICT). The impact of ICT has been substantial, on both the corporate world and society as a whole; thus, the contention that we have moved from the 'Industrial Age' to the 'Information Age'.

ICT has revolutionized organizations since it allows one to store, protect, process and transmit information as well as convert, protect and securely retrieve it.[51] Computers have transformed manufacturing processes, from design to production and quality verification; marketing, including advertising and sales through e-commerce; financial operations; management communications; and control. ICT not only provides the capability to improve performance and create more knowledge but also brings about a greater interconnection and the possibility of conversation among people within and outside the organization. Several widely utilized ICT elements make all of this possible. They include *email*, which allows the rapid transmission of information and online discussions, as well as *web pages* and *blogs*, which provide easily accessible stored information and material for conversation. *Groupware* is also available. This is especially significant in organizations since its custom-designed software provides support for carrying out particular tasks and for decision-making.

There are a number of specific ethical problems connected with ICT, which we will briefly review later. First, it is worth remarking on the impact of IT on organization members or those affected by the organization, including its clients and suppliers.[52]

Computers, and ICT in general, condition human work and human relations. Computers and computer-driven devices are seen as all-powerful, and some wonder whether human thought could be replaced by artificial intelligence or sophisticated algorithms. ICT is a great help, and computers and other machines are, in some respects, more powerful than human beings, but they are nonetheless mere mechanical artefacts without feelings and spirituality. Furthermore, moral judgements require practical wisdom, which is a specifically human feature.

Along with many positive features, these technologies can affect employee privacy and subject people to constant *surveillance*. Through IT, a business can collect a huge amount of information about its employees and customers. If this information were disseminated or even sold without permission, it would be a flagrant violation of privacy. Personal data should be obtained only with informed consent, and confidentiality is required. Moreover, since stored information can contain errors, the individuals in question have the right to access their personal data and modify it. Harm caused by negligence regarding this data is the responsibility of the employer.

The surveillance of employees by their employer is now easier with the help of technological devices, but there is a tension between evaluative surveillance and privacy, considering the current capacities of IT. Surveillance can be legitimate or abusive.[53] In any case, human dignity and the Personalist Principle require that the kind of surveillance used by the company should be transparently communicated to employees. Most countries have legal requirements regarding data protection and even electronic surveillance but, as usual, not every situation is covered by the law.[54]

Other ethical issues regarding ICT have to do with how employees use these technologies. A frequent complaint concerns employees wasting time 'surfing the web', using other ICT for reasons totally unrelated to the job, and using corporate software for personal reasons without permission. Technology can make it easier to disseminate trade secrets and send inappropriate messages to many people with very little effort.

A third group of ethical issues refers to e-commerce (Chapter 11, Section B), which poses ethical questions related to truthfulness, fraud, respect for privacy and security in data processing, among others.[55] In fact, many of these are common ethical issues but, when they appear in the context of e-commerce, they have different manifestations and scope.[56]

Case Study
United Laboratories—The *Bayanihan* Culture[57]

United Laboratories (Unilab) is one of the Philippines' flagship companies. It employs over 3,000 people, providing them and their families with a variety of benefits, such as hospitalization fees, training, educational benefits, material compensation and different kinds of family assistance. Furthermore, it enjoys a leading presence in Asia and many of its products have become top brands in Indonesia, Thailand, Malaysia, Singapore, Hong Kong, Vietnam and Myanmar.

Unilab had its beginnings in a small corner shop in downtown Manila. It was founded by José Y. Campos shortly after the Second World War and before the United States granted independence to the Philippines. After the Japanese occupation, drug supply was very limited. The penicillin and sulfonamides (sulfas) to treat infections were bought by American soldiers and then sold on the black market. On one hand, this made the medicines available for people; on the other hand, the prices were so high that not many could afford to purchase them. Thus, the delivery of good-quality medicines to the Philippine poor was, from the very beginning, one of the main purposes of Unilab. Campos met an American soldier, Robert Horowitz, who had had a pharmacy before the war. Shortly afterwards, they jointly set up United Drug, where Horowitz was in charge of the production and Campos handled the marketing and distribution.

Campos stamped the company with a strong business philosophy inspired by indigenous Philippine values, mainly by the concept of *Bayanihan*, enriched with the Christian faith of the Unilab cofounder. *Bayanihan* literally means *heroic cooperation* and can be interpreted as *working together towards the common goal* in terms of the fullest economic, social, cultural and spiritual development.

Bayanihan leads to hard work; every individual is aware that he or she is carrying his or her own share of the whole burden and, if one fails, it results in a proportionate increase in the weight upon others. *Bayanihan* also emphasizes individual development and requires providing the conditions for people to express their talents.

Unilab has a credo that explicitly includes the *Bayanihan* concept in its first point: 'We believe that we are UNITED IN THOUGHT AND ACTION, and from this we derive our strength and our spirit of *Bayanihan*.'

The company made an early decision to serve the country's poor and young population and to be aware of its corporate social responsibilities. After the Second World War, when the Philippines was experiencing very harsh economic conditions, their social pricing policy obliged Unilab to sell most of their products at 20–60 per cent below their competitors' prices.

Unilab management policy regards its employees as the first managerial obligation. This follows the founding ideas of Campos, who used to say: 'take care of your people and the people will take care of the customer'. The company also understands that it should serve the entire Philippine society, addressing the therapeutic and nutritional needs of the country's poor population and giving good service to the medical profession—for example, by sponsoring professional education for medical professionals. In addition, the firm has provided aid to the victims of several floods and typhoons in the Philippines.

Unilab has received various international and national awards, such as Best Employers in Asia from Hewitt Associates and Dow Jones, on two occasions, and Marketing Company of the Year by the Philippines Marketing Association, and Most Outstanding Employer of the Year by the Personnel Management Association of the Philippines. On May 2006, José Campos was honoured by the Philippine Medical Association as the 'Father of the Philippine Pharmaceutical Industry'.

Questions

1. What strengths and weaknesses can you see in the Unilab corporate philosophy?
2. How is it possible to make medicine 'accessible to the poor', selling at a price 20–60 per cent below their competitors' prices, and still be profitable?
3. What elements might have contributed to the development of the Unilab culture?

Summary

- Institutionalizing ethics in organizations means introducing ethics formally and explicitly into daily business life.
- The corporate purpose or mission announces what the organization intends to do, while corporate vision posits a view of the future company.

Mission and vision can contain efficiency-oriented values and ethical values.

- Corporate values, 'creeds', or guiding principles prescribe what company leaders desire to drive corporate governance, management and organizational activity. Like the mission, corporate values often include ethical values but also values related to improving efficiency.
- A code of business conduct contains standards and can bring about several benefits to organizations; it will encourage good behaviour in managers and employees if the code is a part of the corporate ethical philosophy and organizational practices.
- A successful code of business conduct also requires, among other elements, a strong senior management commitment, the existence of a real need, powerful motivation and appropriate elaboration and implementation.
- Organizational culture, which has an important ethical dimension, expresses shared beliefs and values, artefacts, styles of behaviour and practices adopted by people within an organization.
- Corporate statements can be quite different from organizational culture and climate. It is a managerial challenge to overcome the 'culture gap' that usually exists between desired values and actual values within the organization.
- Several factors can contribute to shaping an ethical organizational culture: the moral behaviours of the leader (probably the most crucial factor); establishing and reaffirming the corporate values and mission and vision (including ethical values); rightly implemented codes and ethical training; ethical criteria for the recruitment, selection and promotion of managers and employees; the application of ethical values in decision-making, in organizational structures, in the informal organization and in customer relationships. Symbols and events can also make a positive contribution.
- Compliance and integrity are two possible ethical cultures for organizations. The compliance approach focuses on operational and legal risks that a company faces and establishes internal mechanisms for their prevention, management and control and for reaction to them. The integrity approach combines compliance with an emphasis on managerial responsibility for ethical behaviour and to create a fully ethical culture.
- Ethical training programmes have been introduced by many companies. They can be effective under certain conditions for reducing unethical or illegal behaviour in the organization and for increasing awareness of ethical issues.
- Organizational structures should respect human dignity and favour personal growth of people involved. They can reinforce ethical behaviours of individuals, mainly through rewards systems (both monetary

and non-monetary), performance and evaluation processes along with appropriate control and monitoring, as well as a system for allocation of decision-making rights and responsibilities, including empowerment with moral guidelines.

- Information and communication technology (ICT) is important for the organizational structure and has an influence on organizational culture. Employee privacy and abuses in their surveillance are two relevant ethical issues related to new forms of technology (Chapter 10, Section A).