



Assessing the Ethical Culture

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What makes an organization ethical? Can you measure ethics and, if so, what criteria should you use for assessment? In this white paper, we present a solution for conceptualizing and measuring ethics—a tool we believe will enable organizational leaders to move toward building more ethical organizations.

In the early 1990s, against a horizon of what were then early stages of globalization, the Center for Ethical Business Cultures (CEBC) at the University of St. Thomas fostered the development of The Minnesota Principles—principles “developed by...business leaders to foster the fairness and integrity of business relationships in the emerging global marketplace.”

These principles were designed to serve as a foundation for dialogue between business leaders around the world. Since that time, the principles have had a global impact, including providing a foundation for the Caux Round Table Principles for Business, available in 16 languages and used around the world.

The Ethical Organization Model

Drawing on its experience with The Minnesota Principles and on additional research, the CEBC developed the Ethical Organization Model (Figure 1), which describes five foundational principles upon which an ethical organization should be built. Further, The Minnesota Principles identifies the following five characteristics of an ethical organization:

Values

At the center of an ethical organization are its values. To use an organic analogy, an organization’s values are its lifeblood. Just as blood nourishes the body, they must flow vigorously through every cell of an organization.

Leadership Effectiveness

The ethical organization will have leaders who both “talk the talk” and “walk the walk” of ethical practice. Leaders must embody the organization’s values in their own behavior and must articulate those values in a compelling way for employees. Leaders set the tone that permeates an organization’s culture. If employees perceive that top leaders care more about results than about how those results are achieved, this perception can encourage the bending or even breaking of rules.

Stakeholder Balance

The Minnesota Principles describe the network of relationships within which the ethical organization operates: stakeholders. The Ethical Organization Model recognizes that needs and demands of different stakeholder groups frequently exist in tension with one another. Customers want higher quality at a lower price; employees want higher wages and increased benefits; owners/investors want a greater return; suppliers want to be paid more; communities want companies to invest more in them; and competitors want fair competition. The model does not suggest that these tensions will disappear for the ethical organization. The ethical organization recognizes these tensions and works to maintain a balance between them. Focusing too much on any one stakeholder, whether owners/investors, customers or employees, will create a distortion that can lead to ethical lapses.

Process Integrity

Process integrity is a focus on the systems dimension of organizational life. The ethical organization’s values must be built into every operational process. All of its operational systems (e.g., recruiting, hiring, evaluating, compensating, promoting, demoting, firing, marketing, sales, production) need to be aligned with its values. At best, misaligned processes create confusion and poor decision making within the organization; at worst, they create ethical breaches and chaos.

Figure 1: The Minnesota Principles* and the CEBC Ethical Organization Model

Proposition #1:

Stimulating economic growth is the particular contribution of business to the larger society. We understand that profits are fundamental to the fulfillment of this function.

Proposition #2:

Business activities must be characterized by fairness. We understand fairness to include equitable treatment and equality of opportunity for all participants in the marketplace.

Proposition #3:

Business activities must be characterized by honesty. We understand honesty to include candor, truthfulness and promise keeping.

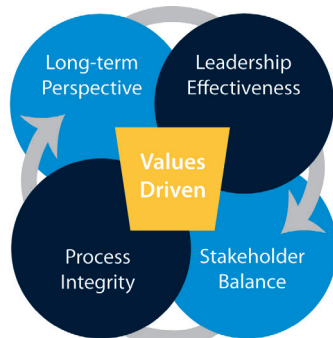
Proposition #4:

Business activities must be characterized by respect for human dignity. We understand this to mean that business activities should show a special concern for the less powerful and the disadvantaged.

Proposition #5:

Business activities must be characterized by respect for the environment. We understand this to mean that business activities should promote sustainable development and prevent environmental degradation and waste of resources.

**In addition to these foundational propositions, The Principles also include six stakeholder principles that refer to care for customers, employees, owners/investors, suppliers, communities and competitors.*



Long-Term Perspective

While The Minnesota Principles recognize a need to assess business performance day-to-day or quarter-to-quarter, a fundamental characteristic of an ethical organization is the devotion of its leadership to strategic planning for the long-term. This characteristic evokes the question, “What is the purpose of this business?” For some, the answer is to maximize shareholder value, but for others, the goal of business is found

in balancing the interests of numerous stakeholders—owner/ investors and employees, customers and suppliers, communities and, yes, even competitors. Within the model, the linkage between leadership effectiveness and stakeholder balance represents a company’s commitment to serving and its ability to return value to all stakeholders.

Assessing Organizational Ethics

Companies doing business in a global economy are confronted daily with both minor and major ethical challenges, and creating and sustaining an ethical organizational culture is critical for successfully navigating those challenges. As the adage goes, “If you can’t measure it, you can’t manage it.” Data from an organizational ethical character assessment provides leaders with an understanding of the organization’s ethical strengths and weaknesses. To provide a baseline from which to evaluate an organization’s ethical practices, CEBC and Kenexa® developed the CEBC Integrity QuickCheck.

The CEBC Integrity QuickCheck is a five-item instrument that provides a high-level snapshot of the organization’s ethical landscape that follows the five propositions of the CEBC’s Ethical Organization Model. WorkTrends™, the Kenexa High Performance Institute’s annual employee opinion survey, provides normative data on these five items. The WorkTrends survey is administered to more than 10,000 full-time workers in the U.S. and approximately 1,000 employees in Canada, Mexico, Brazil, the UK, Germany, Italy, The Netherlands, China, Japan, Saudi Arabia and India, with an additional 500 respondents in Russia. The Integrity QuickCheck asks employees if the following conditions of ethical business exist in their organization:

- Ethical issues and concerns can be discussed without negative consequences
- Senior management support and practice high standards of ethical conduct
- The organization is committed to serving the interests of multiple stakeholders (e.g., customers, employees, suppliers and community), not just the shareholders
- Employee behavior is consistent with the organization’s mission, vision and values
- Employee advancement is based on behavior that demonstrates company values

The Current State of Organizational Ethics in the U.S.

In 2008, the WorkTrends survey used the Integrity QuickCheck to report employees’ opinions about the ethical climate at participating organizations. Data demonstrates that not only is business ethics an important issue for employees, but employees’ reports of their organization’s ethical strengths are based on which industry they are in and at which level of the organization they work.

With results of five ethics-related questions, the WorkTrends survey demonstrates that working Americans regard organizational ethical culture as being important (Figure 2). In general, “ethical culture” is perceived by working Americans to be positive when favorable responses are greater than 50 percent for all five of the ethics items. Organizations fall short when they do not align values with advancing potential.



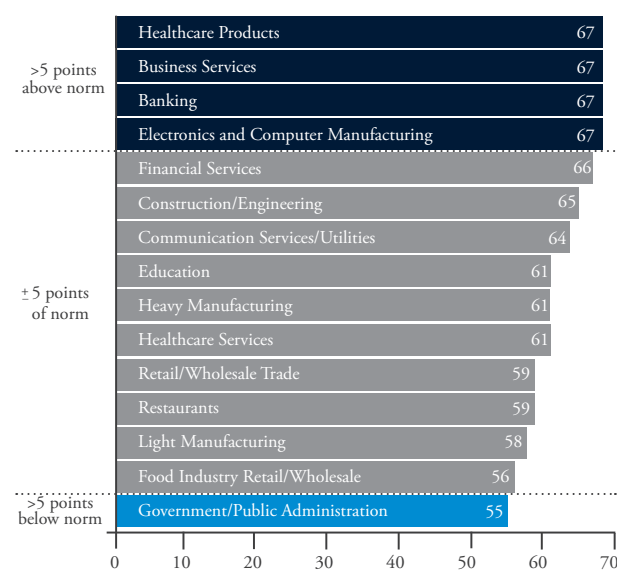
From a historical perspective, all indicators of ethics have consistently risen over the last three administrations of WorkTrends, no doubt due in part to the passing of the Sarbanes-Oxley Act in 2002. Since the formalization of ethical practices in this high-visibility legislation, organizations have had more reason to be proactive about ethical practices. The survey results reveal a need for prudent concern. Risks from lapses in ethical judgment nearly always are present within an organization, regardless of the espoused culture. With each of the ethics items, one-third to one-half of all employees imply, by responding neutrally or unfavorably, that ethical behavior is not ubiquitous or innately grounded within their organization’s culture. The implication is that there exists significant opportunity for costly misconduct as well as significant latitude for improvement.

Misalignment of organizational systems is a potential problem. The process integrity portion of WorkTrends reports on the perception of “my coworkers’ ability to advance within their organization...unless their behavior clearly demonstrates company values.” Unfortunately, only 50 percent of respondents in 2008 agreed that there was “integrity” in their organizational systems (Figure 2). Processes in an organization include the way a company hires, fires, educates, compensates and recognizes. This result identifies a potentially serious weakness and a major risk factor within organizational cultures. Process integrity forms the cornerstone of system effectiveness and efficiency as it relates to behavioral modification and in creating an ethical culture.

The implication of these results is that operational systems within many organizations are not totally aligned with organizational values, and thus do not effectively integrate and promote ethical behavior. The underlying message: one-half of working Americans do not see a correlation between living their company’s values and advancement in their company. Employees do not feel empowered or even obligated to do the right thing. For management, this should create a sense of foreboding when assessing the effectiveness of training and communication programs aimed at moderating compliance risks. Either company values are, in general, out-of-synch with mainstream American values or company programs are not effective in conveying what is defined as acceptable behavior for employees.

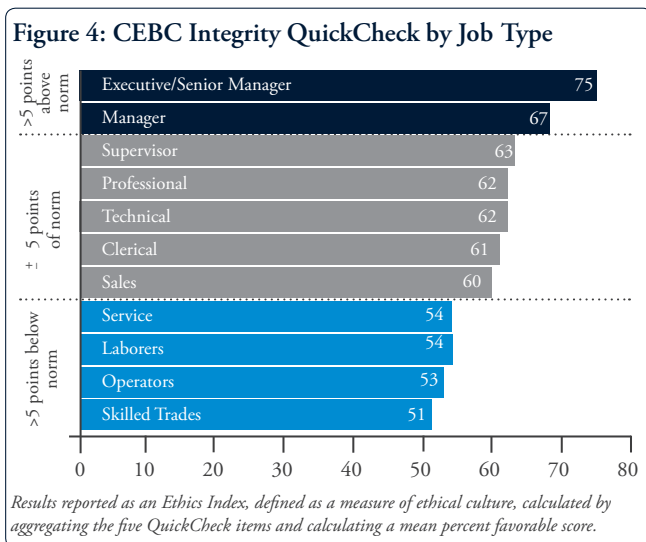
There are important differences among industrial sectors in the strength of ethical culture. The Integrity QuickCheck revealed significant differences in the way varied U.S. industries handle ethics (Figure 3). In general, industries considered more highly regulated score more favorably. Regulated industries operate in a more structured environment that includes auditing and reporting, which might generate an appreciation for and application of ethical decision making and ethical behavior, and might contribute to the higher overall score. In contrast, Retail/Wholesale Trade, Restaurant, Light Manufacturing, Food Industry and Government/Public Administration make up the lower third.

Figure 3: CEBC Integrity QuickCheck by U.S. Industry



Results reported as an Ethics Index, defined as a measure of ethical culture, calculated by aggregating the five QuickCheck items and calculating a mean percent favorable score.

Workers with various jobs perceive ethics differently. When workers employed at various levels within the organizational hierarchy are compared, QuickCheck results demonstrated that the more senior the respondent's job classification, the more favorable their response. The data demonstrates a wide gap between ethics perceptions of management and line workers. Whereas 75 percent of senior management feels as though their organization is ethical, only 51 percent of laborers have faith in their organization's ethical constitution. We refer to this hierarchical disconnect as "the gap," indicating that 1) executives might not be doing as good a job at "setting the tone at the top" as would be hoped, 2) the systems employed to disseminate the message are not effective and 3) employees are naturally skeptical when it comes to senior management's behavior.



This type of gap is typical of organizations, but should not be considered an acceptable characteristic of an organization. It is an indicator of potential risk or an agent of harm to the organization, and should not be ignored. The gap represents an organization's detachment from the real world and opinions or perspectives of others, and it represents a potential source of consternation for management.

A key element of creating and sustaining an ethical culture is establishing management's role in "setting the tone at the top." If that role is not effectively communicated to the rank-and-file employee, there is an opportunity to inadvertently instill mistrust between management and non-management,

with disastrous consequences. The data indicate misalignment between what management believes they are saying and doing to promote ethical behavior within the organization and what non-management perceives to be actually occurring in operational frontlines. For management, the "gap" has the unfortunate potential of fostering a false sense of complacency that could lead to increases in ethical breakdowns.

Added Bonus: Strong Ethical Cultures Demonstrate Organizational Benefits

The Integrity QuickCheck revealed major differences between strong and weak ethical cultures, including differences in employee engagement and changes in reputation and performance (Figure 5). Kenexa's employment engagement index is comprised of four survey items that measure employee's pride in working at their organizations, their overall company satisfaction, the likelihood they would refer the organization to friends and family as a good place to work, and the extent to which they think about leaving their job. A strong sense of ethics in an organization is positively related to employee engagement—75 percent more employees were engaged who worked in strong ethical cultures than in organizations with a weak sense of ethics.

Figure 5: Relationship Between Strong and Weak Ethical Culture to Organizational Outcome and Employee Engagement Metrics

Item/Index	% Favorable		
	Strong Ethical Culture	Weak Ethical Culture	
Employee Engagement	Pride	93	16
	Overall Satisfaction	92	14
	Advocacy	92	15
	Retention	83	14
Business Outcomes	Reputation Improvement	45	4
	Business Improvement	45	5

The survey showed there is a common perception that meeting multiple needs of stakeholders and having an ethical focus could negatively affect fiscal performance. However, WorkTrends data show this assumption is false. Of the employees who reported that their organization's performance and reputation improved in the past year, 45 percent were employed in a strong ethical culture, and only four to five percent worked in a weak ethical culture.

Results were reported as an Ethics Index, which was defined as a measure of ethical culture, calculated by aggregating the five QuickCheck items and calculating a mean percent favorable score.

Conclusion

Employees believe working in ethical organizations is important, both for them and for the companies in which they work. Most people want to work for companies that do the right thing for all of their stakeholders, create products and services that serve their customers, fairly compensate employees, suppliers and owners/investors, compete with integrity and contribute to the common good. The data revealed two important gaps: 1) the difference in perception of ethics between leaders and workers, and 2) the disparity between work systems and organizational values. In both cases, the wider the disparity, the greater the risk of breakdowns. The onus is on leadership to close these gaps using assessment tools, such as the Ethical Organization Model and CEBC Integrity QuickCheck. ■

References

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About Kenexa

Kenexa provides business solutions for human resources. We help global organizations multiply business success by identifying the best individuals for every job and fostering optimal work environments for every organization. For more than 20 years, Kenexa has studied human behavior and team dynamics in the workplace, and has developed the software solutions, business processes and expert consulting that help organizations impact positive business outcomes through HR. Kenexa is the only company that offers a comprehensive suite of unified products and services that support the entire employee lifecycle from pre-hire to exit.

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