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Building organizational integrity

D. Christopher Kayes [a,*], David Stirling [b], Tjai M. Nielsen [a]

[a] *School of Business, The George Washington University, 2201 G Street, NW, Washington, DC 20052, USA*
[b] *Human Capital Management Practice, IBM Business Consulting Services, 1148 Bellview Road, McLean, VA 22102, USA*

Abstract Ethical lapses by employees can put organizations at substantial risk. Although improved compliance procedures can help limit this risk, successful efforts must extend beyond compliance to build a culture of organizational integrity. Recent changes in regulatory requirements and more stringent sentencing guidelines demand an integrated approach to ethical awareness, one that encompasses the four organizational practices of controls, clearly defined principles and purpose, core values, and culture. Inevitably, the most difficult of these is building a culture of high ethical standards that are reflected in day-to-day practice. To overcome the barriers to building organizational integrity, leaders must question key organizational practices while constructing a culture based on ethical behaviors.
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1. Organizational vulnerability

As head investment advisor of one of the world's most respected and profitable banks, Mary became accustomed to making high-risk trades. Her track record of success became the envy of her peers and even began to gain the attention of the press. When regulators uncovered that much of Mary's success could be attributed to a cleverly concealed series of front running trades, her employer was stunned. Mary's front running involved buying shares in a company for her client just before the stock received a strong 'buy' recommendation from a well-known analyst. Mary was receiving information about the recommendation before the general investing public, a practice that was both illegal and unethical. How could the compliance department, widely recognized as one of the best in the business, have missed the problem?

The fact that Mary's behavior went undetected by the compliance department and regulators, at least temporarily, put Mary's organization at considerable risk. Unfortunately, individual ethical lapses that go undetected by an organization remain common. Facing new legislation and regulatory oversight, as well as more stringent sentencing guidelines for compliance problems, organizations

* Corresponding author.
  E-mail addresses: dckayes@gwu.edu (D.C. Kayes),
david.m.stirling@us.ibm.com (D. Stirling), tnielsen@gwu.edu
(T.M. Nielsen).

have become increasingly vulnerable to the behavior of employees like Mary.

The situation might have been different for Mary and her company had the organization initiated a comprehensive approach to organizational ethics, rather than rely strictly on compliance to monitor ethical lapses. Although Business for Social Responsibility (2005), an industry think tank, indicated that as many as 60% of all firms and 95% of Fortune 500 firms have an ethics program, it is likely that these programs have been assembled as a reaction to a front-page scandal or have come from an off-the-shelf employee ethics training program. Stop-gap measures such as these only make matters worse, as they lull organizations into believing they have protected themselves from ethical lapses.

In this article, we share the insights we have gained from experience with organizations that seek to limit their risk to lapses in ethical employee behavior (such as Mary's front running). In our work, we have studied the basis of organizational ethics practices, reviewed research, identified best practices, and participated in a number of organizational change efforts. The primary purpose of this article lies in summarizing our insights to help organizations improve ethical awareness and limit their risk from employees' unethical behavior. In particular, we share our concern that many organizations have failed to adopt a comprehensive ethical framework for their efforts. Instead, these organizations have settled for a quick fix based on improved compliance procedures. A secondary purpose lies in linking our experiences with systematic theory and research to present a framework that is both useful and conceptually grounded. Our position can be summarized as follows: while improved compliance procedures serve as the foundation of ethical change efforts, the most successful efforts move beyond compliance to build a culture of organizational integrity.

2. Public backlash to ethical lapses

Today's business climate is one of constant pressure to produce results, increase productivity, and fend off global competition. As such, the resulting spate of publicized fraud and ethics violations should come as no surprise, nor should the rising interest in corporate ethics programs. There is growing public backlash against what might be considered excessive ethical lapses. For example, several of the largest pension and investment firms in the United States have become increasingly concerned with the companies in which they invest. California Public Employees' Retirement System, or CalPERS, was instrumental in forcing the head of the New York Stock Exchange to resign after it was revealed he was to receive over $140 million in pay.

The public backlash against these ethical lapses has resulted in a harsh new regulatory environment, which in turn has given rise to a growing number of ethics-driven change programs within organizations. Negative sentiment stems from the popular belief that organizations, business organizations in particular, have neglected their contract with society. To be sure, businesses are not the only organizations to suffer this loss of public confidence; universities, not-for-profits, and government-related entities have all had to deal with ethics-related problems. Business organizations, however, have experienced some of the most severe public backlash and the ensuing regulatory accountability, in order to re-establish investor confidence in how business is conducted and reported.

One of the most obvious examples of the backlash against perceived ethical lapses came in the form of the 2004 revised guidelines from the U.S. Sentencing Commission (USSC), which clarified and made more stringent the criteria organizations must follow to create an effective compliance and ethics program. The USSC's focus on ethical corporate behavior in this revision reflects a shift in the legal landscape since the original guidelines were implemented in 1991. The updated guidelines provide incentives for organizations to create meaningful, effective compliance and ethics programs, tools which are essential should the organization seek to mitigate fines and/or terms of probation associated with a criminal offense (e.g., front running). Moreover, these guidelines employ a broader definition of the term *organization*; its mandates cover corporations, partnerships, associations, joint-stock companies, unions, trusts, pension funds, unincorporated organizations, governments, and nonprofit organizations.

While good business practice requires a formal set of rules and regulations as a starting point, organizations of all kinds must find ways to help individual employees respond to the daily ethical dilemmas they face. After all, not all behavior falls under the purview of formal rules and regulations. In addition, prosecutions and lawsuits associated with many of the recent high-profile scandals indicate that improper conduct occurred not in the absence of codes of ethics, but in spite of them.

Our assumptions are backed by academic thinking. Anand, Ashforth, and Joshi (2005) describe a framework for how organizations continue to perpetuate the misuse of organizational resources for personal or political purposes. While we do not go as far as calling this behavior corruption, as Anand and his colleagues do, our experience tends to confirm

that organizations often fail to take seriously the public backlash against organizational misbehavior. Furthermore, our experience shows that many organizations focus mainly or solely on compliance as a means to deal with ethical lapses. This is just the kind of incremental change and compromise that Anand et al. suggest perpetuates misbehavior. Organizations that embrace incremental change and compromise ignore the hard work associated with building culture, changing attitudes, and guiding individual decision makers to do the right thing.

3. Building integrity

Across diverse industries and functions, our observations and work have shown that a comprehensive approach to building organizational integrity provides the most promising method to limit an organization's risk. Although the specific approach employed may vary based on organizational function and values, all comprehensive approaches involve changing key processes across all functions of the organization.

Our experience has revealed that the best organizations progress beyond the compliant corporate culture to a culture that encourages exemplary behavior, where doing the right thing results in good business rather than simple compliance to regulations. Exemplary behavior begins with a comprehensive approach to ethics, one which reaches past the often punitive legal compliance stance and emphasizes integrity. Stated more bluntly, organizations that define ethics as a legal compliance exercise are implicitly endorsing a code of moral mediocrity. Although compliance is important (in many instances, it is the price for admission), it is no substitute for integrity.

3.1. Characteristics of integrity

We believe that organizations with integrity display four characteristics:

(1) *The language of ethical decision-making is used.* Employees openly and confidently discuss the ethical implications of actions. The language of ethics was evident in one financial services company where one of the authors worked. When a manager noticed that a broker entered a faulty trade for a retail customer, he quickly directed the broker to contact the customer and re-enter the trade. The newly executed trade saved the customer thousands of dollars but cost the company the same. The corrective action reflected the language of integrity, as the customer probably would not

have discovered the initial mistake. The manager, however, understood the importance of maintaining integrity, despite the fact that the customer might have remained in the dark.

(2) *Structural supports and procedures that facilitate ethical decision-making have been developed.* Employees have a clear channel to air and discuss problems, escalate issues, and explore gray areas of compliance. Many of the organizations we have observed have developed ombudsman programs, through which employees can escalate or simply discuss problems anonymously and in confidence with personnel outside the company. Ombudsman programs, as well as other supports, provide an important mechanism for escalating problems without fear of retribution.

(3) *A culture of openness, responsibility, and commitment to multiple business goals has been created and sustained.* Employees can articulate several business goals beyond the bottom line. Such goals might include the organization's responsibility to society, employees, the profession, or ideals. A study featured in a psychology journal supports our point. According to the research, in a controlled laboratory setting, participants that had high and narrow goals were approximately 30% more likely to over-report performance on an assigned task. Those participants who had broadly defined goals were less likely to over-report actual performance.

(4) *Employee development is valued.* Employees experience regular opportunities to learn and develop, including personal and career development opportunities within the organization. Such opportunities help individuals feel like a valuable part of the organization and tie individual success to organizational success, which assists employees in making long-term decisions that are in the best interest of the organization.

With this understanding of integrity in mind, a number of specific practices can be integrated to build integrity.

4. The four practices of organizational integrity

One of the authors of this article recently outlined a framework for understanding a comprehensive approach to organizational integrity (Kayes, in press). The framework drew on the work of sociologist Max Weber (1946), whose ideas on bureaucracy have proven highly influential in

developing a systematic framework for studying organizations. Influenced by Weber and drawing on our experiences in organizations, we propose building integrity around four organizational practices: operating controls, principles and purpose, core values, and culture.

4.1. Operating controls

All organizations require formal controls such as compliance, oversight, and accounting and audit functions. These controls form the foundation for a comprehensive approach to organizational integrity. As a recent report released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2005) notes, inaccurate reporting is not tolerated, regardless of the size of the organization. No organization can limit its risk without effective operating controls.

The 189-page draft of the COSO report outlines 26 fundamental principles associated with the five key components of internal control in larger organizations: control environment, risk assessment, control activities, information and communication, and monitoring. The report also offers a variety of approaches appropriate for smaller organizations. For any size of organization, controls ensure adherence to external guidelines and internal policies. A control system establishes specific policies and procedures for how tasks are to be handled on a regular basis. Controls place accountability within the business and provide the framework necessary for operating smoothly and within guidelines.

In addition to its compliance function, a well-balanced set of operating controls should be integrated with performance measurement systems. Such performance measurement systems are vital to success and, from a regulatory management perspective, provide documentation to validate required business procedures. Another element of operating controls that is often overlooked is communication and training on critical organizational procedures. Effective organizational control systems require time to explain. Especially when organizations adopt new systems, employees need to know why these changes are being made and the effect the control system will have on existing processes. An effective communication and training system will accelerate compliance associated with the rules-based aspects of operations.

4.2. Principles and purpose

Regardless of their size or business sector, transparent companies operate under principles of disclosure. Transparency means that information will be withheld from the public only for legitimate privacy and legal reasons. Organizations that go beyond their respective legal and regulatory requirements find themselves better positioned to react to changing business expectations. Extending past controls and compliance entails integrating principles and purpose into the very core of organizational practices.

Ford Motor Company serves as an example. In 2003, each of Ford's major business groups was charged with creating 2004 business plans and scorecards that reflected the company's business principles, which were adopted in 2002. This served as a key step toward integrating the principles into the everyday workings of the business. As a result, Ford's North American manufacturing business included targets and progress indicators that aligned with company business principles; for example, safety and impact on the environment appeared as both scorecard elements and business principles. Business principles such as fostering quality relationships with suppliers, employees, and the community appeared as morale on the scorecard measures; concern for producing superior products and meeting customer needs appeared as quality and product delivery. The integration of business principles into scorecard outcome measures reflects an ideal way in which organizations may incorporate principles and purpose into bottom-line performance measures that are consistent with integrity.

4.3. Core values

The Gillette organization focuses on three core values: achievement, integrity, and collaboration. The first of these, achievement, emphasizes dedication to the highest standards of achievement and exceeding the expectations of internal and external customers. The second core value, integrity, signifies the importance of mutual respect and ethical behavior as the basis for relationships with colleagues, customers, and the community. Finally, collaboration focuses on working together as one global team by emphasizing open communication, establishing clear accountability for decisions, identifying issues and solutions, and maximizing business opportunities.

The expressed values of this global consumer products company provide a framework for understanding and expressing values, as Gillette reaches past bottom-line results to take a more comprehensive view of its role within the broader economic and social community. This global organization's values are important because they illustrate that integrity extends beyond the customer to include a variety of stakeholders.

4.4. Culture

By far, the most elusive of the four practices of integrity is building a culture of integrity. Culture appears not in formal organizational controls, but in informal actions and values underlying business practices. Like formal controls, culture can control behavior, but through the tacit or hidden beliefs and practices of the organization. Organizational integrity requires building ethical awareness into the culture.

Best Buy, a Fortune 100 consumer electronics retailer, dedicates significant effort toward building a culture of integrity. Top leaders encourage employees at all levels of the organization to speak up directly and through employee engagement surveys designed to assess employee involvement, enthusiasm, and commitment. These and other actions at Best Buy reflect how the business integrates its principles into everyday work processes. The company culture encourages individuals to speak up, disagree with organizational policies in a constructive manner, present alternative values, and foster ethically aware behavior. Best Buy advances the culture of integrity a step further by allotting power to those who usually do not have it: front-line employees. For example, Best Buy has instituted a process to identify key operating issues, so that individual store employees often have their opinions heard in the executive suite. Even more important is that these opinions are highly valued by managers, who use this information to improve responsiveness.

5. Integrating practices

Like the phrase implies, building integrity requires integrating the four distinct but interrelated practices of organizational integrity into a coherent ethics strategy. Many of the organizations we observed relied on one or two of these four practices; few, however, embraced the comprehensive model of integrity essential for navigating today's complex ethical environment. While attending to any of these practices helps an organization, without an integrated approach, organizations fail to build an ethical infrastructure that can withstand difficult ethical encounters. When the rubber meets the road and an employee is faced with a decision that has ethical implications, the ability to successfully navigate an ethical dilemma requires a multi-dimensional strategy. As explained previously, the strategy will feature a language of ethics, structural supports and procedures that facilitate ethical decision-making, and, most importantly, a culture of openness, responsibility, and commitment to

multiple business goals. The culture aspect is the most difficult to change, and it is examined further in the next section.

6. Building a culture of integrity

Although integrity does not ensure that an organization will make better ethical choices, it implies a systematic and comprehensive approach to assessing values, weighing choices, and considering the multiple demands involved in decision-making. When the company culture ignores, promotes, or even rewards improper conduct, no amount of employee training on the intricacies of compliance laws will be sufficient to prevent a business disaster. According to Ed Schein (1992), one of the first scholars to systematically study how organizational culture affects effectiveness, culture is difficult to change because it requires understanding of deeply held assumptions, not just the day-to-day behavior of those in the organization. Systematically changing culture requires recognizing and then challenging these ingrained beliefs.

Despite the difficulty in changing culture, Schein and others believe there are strategies that companies can employ to increase their chances of creating successful change. One cultural change effort conducted at Best Buy (Gibson & Billings, 2003) reveals three essential phases of successful behavioral change efforts.

6.1. Phase 1: Understanding the 'why' of integrity

First, employees must understand why integrity is necessary. Organizations must employ a comprehensive approach to educate employees about the importance of ethics and integrity in everything they do. This should begin with communicating the vital facts regarding new ethical guidelines, policies, and procedures. It is important to note that multiple methods (e.g., e-mail, website, memo, formal announcement) should be used to share this information and that it should occur at all levels of the organization; in other words, it is not enough for the CEO to send an e-mail to all employees. The message about changing to a culture of integrity must start at the top and be methodically cascaded throughout the organization. Every manager must be able to state the organization's case for change, as this increases emphasis and helps employees understand the message in light of their specific work contexts. Once people understand why integrity is important for the organization, they want to know what is in it for them.

6.2. Phase 2: Understanding the 'why not' of integrity

Second, the rewards of changing to, and the consequences of not adopting, a culture of integrity must be well articulated and understood. This phase involves increasing the emotional commitment of individuals and teams to consistently engage in ethical behavior. Relating compelling examples of the subsequent benefits of changing and the dangers associated with not doing so adds emphasis and increases comprehension. An appreciation for how difficult it is to build integrity must be taken into account during this phase. Employees need to have opportunities to react to the change; if they are not able to express their concerns and fears, they will be less likely to embrace the practices of integrity. While employees should feel free to express their feelings, they must also understand the benefits of integrity. This can be a challenge in the realm of ethics, as the benefits typically involve avoiding trouble. Corporate reputation and its impact on recruitment and retention, however, is a positive aspect that should be highlighted, such that employees might get a feeling for what accompanies ultimate success. Once everyone understands the case for integrity and becomes emotionally committed to the effort, they must learn the new, accompanying behaviors and processes.

6.3. Phase 3: Understanding the practices of integrity

Lastly, employees must comprehend the new behaviors they are expected to adopt and the new processes to which they must adhere. The final phase of building a culture of integrity involves providing employees with the knowledge and tools necessary to, through appropriate behaviors, resist ethical lapses. Teaching people exactly which behaviors are needed to support the change to organizational integrity is essential. When employees encounter ethical gray areas, they must know what to do, or at least where to turn for available, helpful resources. A comprehensive, company-wide education effort that focuses on teaching people appropriate responses to multiple scenarios should be initiated. This should be supported by familiarizing employees with the process for getting help and reporting concerns without reprisal. Coaching and intensive feedback should be provided and new behaviors should be rewarded. At the same time, old behaviors should be extinguished and punished, if necessary. Even if the three phases of change

are successful, organizational integrity requires continued support.

7. Ongoing efforts

This three-phase process focusing on knowledge, emotional commitment, and execution must be continually supported, as follows:

- *Through business integration*. The why, the why not, and the day-to-day practice of integrity must be built into the formal business processes of the organization. As noted earlier, integrity means that all functions of the organization support ethical decision-making. Integrity requires that ethics be a key part of the performance management process (i.e., promotion, compensation), leadership development (at all levels), and leadership selection (e.g., knowledge and past behavior involving ethics).
- *Through measurement*. Organizations must be able to measure their progress and success in achieving organizational integrity in order to know where they stand, identify opportunities for improvement, and recognize success.
- *Through executive support*. Organizational integrity must remain a key strategic priority for executives. The emphasis they place on the issue is necessary to keep integrity in the forefront of employees' minds.

Even those unique organizations that seek a systematic and comprehensive approach to integrity face difficult barriers. Next, we explore some of the most prevalent barriers to building organizational integrity.

8. Barriers to building organizational integrity

The story of Mary, the front-running head investment advisor, illustrates how difficult it can be to build organizational integrity. Despite working for an organization with a very aggressive compliance program and strong values and principles, Mary continued to engage, undeterred, in unethical and illegal activity.

Due to increasing performance pressures and the challenges of building a culture, integrity is often difficult to cultivate. Efforts dedicated to fostering integrity are likely to be met with resistance. Indeed, even those organizations that manage to successfully integrate their ethical practices will find no panacea. The best organizations can experience troubles on the road to building and maintaining integrity. An examination of many

recent ethical scandals reveals some of these difficulties.

8.1. Fear of being ostracized for whistle-blowing

In most of the cases we reviewed, employees were aware of problems and ethical violations, but remained silent out of fear of retribution. One study conducted jointly by the Ethics Resource Center (2005) and the Society for Human Resource Management found that as many as 30% of employees have witnessed wrongdoing, and half of those have failed to report it for fear that the organization will not handle the problem effectively. Overcoming the fear of being personally and professionally ostracized directly relates to how organizations respond to both good and bad behavior. Some probing questions should be asked: is a response to an ethical lapse doled out quickly and consistently? Are efforts to acknowledge and correct wrongdoing celebrated in some way by leadership? Where is the structural support for ethics in the organization?

With the enactment of the Sarbanes-Oxley Corporate Reform Act of 2002, whistleblower protection has been extended to all employees in publicly traded companies for the first time. The provisions of Sarbanes-Oxley:

- Make it illegal to act against whistleblowers in any way;
- Establish criminal penalties of up to 10 years for executives who retaliate against whistleblowers;
- Require board audit committees to establish procedures for hearing whistleblower complaints;
- Allow the secretary of labor to order a company to rehire a terminated employee with no court hearing; and
- Give a whistleblower the right to a jury trial, bypassing months or years of administrative hearings.

Further, this Act requires organizations to have ethics policies and codes of conduct as part of their effort to prevent unethical or illegal behavior, and to detect it if it does occur.

8.2. Size of the company

Small organizations face a barrier by virtue of their size: they may lack an ethics officer, a published code of conduct, and formal processes for reporting misconduct, as well as the economies of scale to develop full-scale integrity efforts. Because of a lack of resources, they often choose to do nothing. Yet, the 2004 Revised Federal Sentencing Guidelines apply to all companies with at least 200 employees.

For larger companies, although size can be an advantage in terms of scale, reach, and market share, it can also create organizational barriers in the form of silos that emerge across divisions or regions. Operational expertise is required to identify areas of potential risk and implement processes for ongoing compliance and ethical risk assessment.

8.3. Organizational objectives

Ethics violations often occur when unrealistic performance objectives are set. The ensuing pressures to meet goals at almost any cost tend to get pushed down through the organizational structure. A disturbing research finding by Brief, Dukerich, Brown, and Brett (1996) indicated that managers always knew right from wrong, but did not feel obliged to act on those beliefs when faced with ethical decisions. Too often, there is a disconnect, as those responsible for setting organizational goals are not the ones thinking about ethics issues.

Measuring what really matters is critical. It is no accident that great companies develop unique standards of performance, and that these standards often involve people. For example, Hewlett-Packard evaluates its managers based on their subordinates' assessment of their managerial behavior and adherence to company values. Motorola has a company goal of providing each employee with at least 40 hours of training per year, and measures managers by the proportion of their people who get the requisite amount of training. For its part, Singapore Airlines spends 15% of its payroll costs on training, which clearly contributes to the company's routinely high customer service ratings.

8.4. Workforce demographics

A survey conducted by Zogby International (2005) showed that 96% of young adults aged 18 to 24 believe that honesty and trust are important in the workplace. Yet, 31% add a caveat, saying that ethics are important as long as they do not compromise personal goals. Obviously, this segment of the workforce has conflicting feelings regarding being ethical versus getting ahead. Other studies undertaken by such organizations as the Ethics Resource Center (2005) support this finding. Their information indicates that 43% of employees in the 18- to 24-year age group will not report misconduct; employees in that age group, as well as nonmanagers in any age group, are the least likely to report misconduct. Business leaders concerned with ethics and integrity should keep this potential

barrier in mind when developing communications and training programs around ethics.

8.5. The state of the organization

Organizations in some form of transition (be it a merger, acquisition, or wholesale restructuring or transformation) also face inherent barriers to building organizational integrity. Because they are particularly susceptible to transgressions and misconduct, these organizations must pay close attention to their ethics communications and programs. In an effort to thwart potential danger, they should create a common language around how business is to be conducted and support a collaborative environment to enhance organizational trust.

8.6. Cynicism

Results of recent studies indicate that the general public is quite cynical about the ability of the business marketplace to regulate its own ethical behavior. For example, in a study conducted by Harris Interactive, Inc. (2005), more than half of American workers questioned the basic morality of their organizations' top leaders and said that their managers did not treat them fairly. Furthermore, only 36% of workers said they believed top management cared about advancing employee skills.

9. Questioning organizational practices

Despite the barriers to building organizational integrity, many of the organizations we work with are well on their way to successfully integrating their controls, values, principles, and culture. To this end, we have developed a set of questions that serve as indicators to help organizations gauge their progress.

9.1. Do you know the rules?

In any business sector, you will find rules of the road; for example, the way a company recognizes and reports its revenue, or the way trading desks in a financial services firm are prohibited from acting on unreleased information for the benefit of their investment portfolio. These rules are often referred to as the company's policies and procedures for conducting business. They are the hard and fast boundaries within which good business can freely be conducted, and are typically monitored as part of the operating controls environment.

Historically, the role of compliance, with respect to the rules, has been that of an advisor to the business. Today, the environment has shifted: the regulatory community expects the compliance department to serve as a watchdog. This implies tracking more data and inspecting and documenting more activity. As a result, leaders of compliance departments strive for a thoughtful balance between the regulatory community and their internal business colleagues. At present, the reconfigured compliance department often partners with revenue-producing divisions of an organization to integrate compliance into everyday practice.

In light of the regulatory environment, each and every employee in the organization must know the rules. Regulators have begun to display a kind of oversight one-upmanship, exhibiting more and more aggressive tactics in the pursuit of fraud. According to many lawyers on Wall Street, the Securities and Exchange Commission is not just investigating outright abuse; it is also reviewing cases in which the spirit of the rules might have been disregarded (Gasparino, 2005).

9.2. What is the tone from the top?

Consider the interesting scenario that played out recently at Boeing. In March of 2005, CEO Harry Stonecipher was forced to resign, after it surfaced that he was involved in an extramarital affair with a female executive. In addition to praising the board's action, Stonecipher, in the *Wall Street Journal*, recounted how he violated his own standards and used poor judgment (Lunsford, Pasztar, & Lublin, 2005). Such self-reflection could be viewed as a noble attempt to demonstrate ethical leadership or, skeptically, as verbal window-dressing of poor judgment from the top.

This example highlights a second question organizations are being asked: what is the tone from the top? Do leaders speak and act consistently with the firm's stated values? Some firms get caught up in a focus on the external media. Although having its name in the headlines for the wrong reasons certainly will not elevate an organization's reputation, more damage can arguably be done by the behavioral cues rank-and-file staff gather from the actions of top management. Whereas it may be easier, and certainly quicker, to measure the reputational impact of scandal by monitoring stock price, it is the immeasurable impact on staff behavior that probably has the greatest negative long-term impact on finances and performance.

Consider also the recent series of scandals faced by a global U.S.-based financial institution, scandals that included participation in fraud and a well-publicized European bond trading disgrace. Taken together, these present a mountain of evidence to fuel support for the CEO's new emphasis on a culture of ethics. In spite of the inclusion and focus

on ethics training as part of the CEO's initiative, his own involvement was seen as key. Yet, one has to ask if the damage done by the bad examples is irreversible. A near certainty is that it will silently impact the behavior of staff for some time to come.

A positive example of this sort is the "talk-walking" being done at Goldman Sachs by its chairman, Hank Paulson, who has engineered a series of training and communication events targeting the entire employee base. Most recently, Paulson introduced a signature event geared toward the senior leaders of the firm, during which he personally led over 40 sessions worldwide.

9.3. When does legally right versus ethically wrong have a suitable outcome?

As the margin for error has tightened around business performance, it has raised the frequency of decisions fraught with complexity and laced with risk in both the financial and ethical sense. As noted by one industry observer (Fandray, 2000), Raytheon has a set of questions it suggests its employees ask themselves when confronted with a dilemma: is the action legal? Is the action right? Who will be affected? Does it fit Raytheon's values? How will I feel afterward? How would it look in the newspaper? Will it reflect poorly on the company? Such self-tests help organizations focus on communicating core values and ethical behavior. Ultimately, it takes the misjudgment of just one person to put the reputation of the entire organization at risk.

9.4. How are values communicated?

When questioned about the values of their firm, most employees will probably try to pull words from the mission statement printed in the annual report or remember terms recited at the most recent quarterly meeting. Does the act of memorizing the company's values reduce ethical risk and raise awareness? Certainly not. That said, programs that incorporate the organization's values in its fabric provide the positive behavioral influences offered by a values-based culture.

Such practice is exemplified by the Adolph Coors Company. Since it adopted an ethics policy some 15 years ago, the company has continually built upon that foundation with strategies focused on prevention, rather than investigation. The goal of the program at Coors is to provide the information, resources, and training necessary to enable employees to go beyond rules and guidelines to think about, clarify, and analyze situations using a values-based approach. For this track record of continuous refinement, and for

implementing a customized program that has directly affected the way employees perceive their work and do their jobs, the Adolph Coors Company was recently awarded the 2005 Optimas Award for Ethical Practice (Workforce Management, 2005).

10. An enormous but essential task

Building organizational integrity is an enormous task. No one-size-fits-all program exists; after all, a code of ethics for a gas and exploration company would differ greatly from one designed for a financial firm. Employees face too many difficult issues and situations that require them to make judgment calls. Helping individuals make these decisions is the ultimate reward for having organizational integrity.

While all types of organizations remain vulnerable to unethical behavior by an individual or by systematic corruption, organizations can strive to make integrity a primary goal. Changing social standards, increased scrutiny by regulators and the media, and increased need for efficiency and productivity create pressures that might lead organizations to make decisions that are perceived as unethical. Unfortunately, pressures like these make the activities of front-running Mary all too common in organizations. With a comprehensive and integrated approach to organizational ethics, organizations can begin to build integrity in day-to-day activities. Organizations that are able to face the turbulent business environment armed with increased integrity will minimize the risk they face from unethical employee behavior, and be better able to recover if and when this does occur.

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