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Ethical Business Cultures: A Literature Review and Implications for HRD

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This literature review identifies characteristics of ethical business cultures, describes factors, considered to be important in developing such cultures, describes current practices of developing ethical culture programs, and discusses the role of HRD in developing ethical business cultures. We argue that ethical thinking and behavior can be learned and internalized as a result of work-based interpretive interactions, and this learning process constitutes an important part of organizational learning. Therefore, to help the organization develop an ethical culture, HRD needs to play a key role in several interrelated activities which include: culture change efforts, focused on the creation of conditions, conducive to ethical behaviors; creation of a dynamic program of ethical training for employees on all levels of the organization; and development of up-to-date codes of ethics.

Keywords: *ethical business culture; organizational culture; business ethics*

The discussion of issues, associated with ethical or unethical behavior in business organizations, has become prominent in human resource development (HRD) literature in recent years. Hatcher and Aragon (2000a, 2000b) provided a compelling rationale for the development of standards on ethics and integrity for HRD research and practice. This initial discussion was followed by a special issue of *Advances in Developing Human Resources*, devoted to an in-depth analysis of theoretical and practical challenges of developing such standards. In addition, the issue reported empirical studies and/or practical

work related to the implementation of ethical HRD practices (Hatcher & Aragon, 2001). Hatcher's (2002) book, *Ethics and HRD*, provided a detailed discussion of the role of HRD in promoting ethical business practices and corporate social responsibility.

A number of recent articles in HRD publications reported results of empirical research or provided theoretical frameworks related to the study of ethical behaviors in various segments of the HRD work. McDonald and Hite (2005) discussed ethical issues in mentoring and the role of HRD in this process. Nieh and McLean (2007) reported on the relationship between succession planning and ethical climates in business organizations. Douglas (2004) conducted empirical case study–based research to identify ethics challenges, associated with attempts to change values and behaviors in organizations. Conine and Rowden (2006) found in their study in small businesses that ethical work climates are associated with job satisfaction and other organizational outcomes. Foote and Ruona (2008) reviewed the business ethics–related literature published in the last 15 years to identify frameworks for the institutionalization of ethics and discussed implications for HRD. However, Russ-Eft (2003) pointed out the scarcity of research on factors leading to ethical or unethical behavior in business organizations. Furthermore, according to Russ-Eft, HRD scholars need to concentrate on researching the role of learning and development in creating ethical business cultures, and the role and effectiveness of HRD interventions aimed at developing ethical cultures.

Therefore, the goal of this article is to provide a review of the literature on ethical business culture that will allow us to identify characteristics of ethical cultures and factors, considered to be important in creating, developing, and sustaining such cultures. In addition, we discuss current practices of developing ethical culture programs. Finally, we connect the identified factors and characteristics with specific HRD activities and interventions, and discuss the role of HRD in developing ethical business cultures.

Method

This study is based on a review of the relevant literature from business ethics, management, organization studies, and HRD fields. We started with a general search of several major online databases, available at a major U.S. public Research I university. At the initial stage, we used various combinations and variations of keywords such as *ethical business culture*, *business ethics*, *business culture*, and *organizational culture*. The main databases searched at this stage included the *Academic Search Premier*, *Business Source Premier*, and *EconLit*. In addition, we searched the university's online library catalog and the Library of Congress catalog to identify books and other print sources, not covered in online article databases.

Once we have identified the initial set of relevant articles and other sources, our next step was to conduct what library and information science professionals

call "pearl growing" (Ramer, 2005). This method involves reviewing several key articles to identify additional keywords, subject terms, or combinations of words which were not considered initially, but were used in the relevant publications. This process allowed us to expand the universe of publications and topics for inclusion in our search. For example, the initial search identified an important link between the concept of ethical culture and leadership, which in subsequent iterations prompted inclusion of search terms such as *ethical leadership*, *moral leadership*, and *authentic leadership*. Furthermore, the concept of ethical climate emerged as a concept used interchangeably with ethical culture in some cases. Therefore, we have included this key word in our new searches.

One result of the pearl growing process was the identification of key journals publishing ethical business culture–related articles. On searching the online tables of contents of these journals a significant number of additional articles and several related special journal issues were identified. The journals searched at this stage included the *Journal of Business Ethics*, *Business Ethics Quarterly*, *Business and Society*, *Business Ethics: European Review*, and *Business and Society Review*. The first three of these journals are generally recognized as the leading journals in business ethics field (e.g., Waddock, 2006). Because ethical leadership has emerged as one of the leading themes at early stages of our search, we also reviewed the *Leadership Quarterly* and added ethical leadership as a key word in searches in other journals. We also searched tables of contents of a number of major management and organization science journals, including the *Academy of Management Journal*, *Academy of Management Review*, *Academy of Management Learning and Education*, *Organization Science*, *Organization Studies*, *Organization Dynamics*, and *Organization Behavior and Human Decision Processes.* Finally, to identify publications, related to ethics and HRD, we searched all four journals of the Academy of Human Resource Development (*Human Resource Development Quarterly*, *Human Resource Development International*, *Human Resource Development Review*, and *Advances in Developing Human Resources*), the *Journal of European Industrial Training*, and the last 5 years of the Academy of Human Resource Development conference proceedings. Overall, our search yielded more than 200 relevant publications. On review of abstracts of all these sources, more than 80 articles and books were studied in detail and included in this review. The results of the literature review are presented in the next three sections of the article.

Ethical Business Cultures: Definitions and Distinctions

It is appropriate to begin our discussion pertaining to definitions and distinctions of ethical business cultures, within the context of business ethics and corporate culture, with a reminder of the fundamental meaning of ethics and culture.

> *ethics, n.:* the rules of conduct recognized in respect to a particular class of human actions or a particular group, culture, and so on (Random House Dictionary, 2009).
>
> *culture, n.:* the totality of socially transmitted behavior patterns, arts, beliefs, institutions, and all other products of human work and thought; the predominating attitudes and behavior that characterize the functioning of a group or organization (American Heritage Dictionary, 2006).

To bring into relief the relational significance of the two terms, *ethics* represents rules or principles that inform behavior within a particular *culture* exhibited by a particular group or organization. According to Carroll and Buchholtz (2008), ethics "is the discipline that deals with what is good and bad and with moral duty and obligation" and can "be regarded as a set of moral principles or values" (p. 242). It is important to note that the conjugation of "good and bad *and* with moral duty and obligation" is integral to the perception of ethical culture presented in this review. The conceptualization of an ethical business culture is changed if the emphasis is only on *good and bad*, right or wrong behavior within the organization.

Corporate culture is often described as one of the main determinants of ethical or unethical behavior in business organizations. Hartman (1996) pointed out that "corporate culture is important to business ethics because it is a vehicle for imparting and maintaining the moral principles and the values, good and bad, that animate life in the organization" (p. 150). Although some business ethics theorists assume an essentialist stance, arguing that ethical behavior depends mostly on individual employees' virtue and morality (MacIntire, 1991), the majority of business ethics-related writing seems to be based on an assumption that ethics in organizations is not a result of virtue alone, but is a function of both individual virtue and contextual factors (Knights & O'Leary, 2006; Meyers, 2004). Among these contextual factors (which include factors internal to the organization as well as those present in the external environment), organizational culture is often listed among the most important influences (Cohen, 1993; Meyers, 2004; Trevino, 1986).

According to Cohen (1993), organizational cultures are complex combinations of formal and informal systems, processes, and interactions. Schein (1985) defined organizational culture as a set of learned responses where "basic assumptions and beliefs that are shared by members of an organization . . . [and] define in a basic 'taken-for-granted' fashion an organization's view of itself and its environment" (pp. 5-6). Formal organizational culture components are comprised of leadership, structure, policies, reward systems, socialization mechanisms, and decision-making processes, among other things. Informal culture components include implicit behavioral norms, values, role models, organizational myths and rituals, organizational beliefs, historical anecdotes, and language (Cohen, 1993; Dion, 1996; Frederick, 1995; Schein, 2004; Trevino, 1990; Trevino & Nelson, 2004). Trevino (1990) argued that business organizations possessing ethical cultures should be creating and maintaining a

shared pattern of values, customs, practices, and expectations which dominate normative behavior in the organization.

Goodpaster (2007) approached ethical business culture through another set of lens, mindsets, and teleopathy, to define and elaborate on corporate conscience. A mindset is defined as "beliefs and attitudes which govern someone's [person or organization] behavior and outlook" (p. 34). Goodpaster further elaborated that mindsets in the context of business "carry thoughts and values into action" (p. 35). Teleopathy, a specific mindset construct, is the unbalanced pursuit of purpose . . . "to which ethics is a practical response." (p. 35). It is characterized by the three symptoms: fixation, rationalization, and detachment. A business organization with an ethical business culture evolves the mindset of corporate conscience, a counter weight to teleopathy. Corporate conscience is expressed as an extension of unconditional respect for rights and concerns of all stakeholders of a given organization.

To better understand what is meant by ethical business culture, we need to distinguish this concept from related (and potentially overlapping) concepts and constructs. The concept that seems to overlap the most with ethical culture is ethical business climate. Schminke, Arnaud, and Kuenzi (2007) pointed out that

> Work climates reveal employees' perceptions of "how things are done around here." They capture what it feels like to work in an organization, the "prevailing weather" of the workplace . . . It is these perceptions of their work environment that drive employees' attitudes and actions. (p. 175)

Schminke et al. (2007) viewed ethical work climates as a subset of the overall organizational work culture. According to Schminke et al., ethical work climate "identifies the ethical characteristics of the work environment . . . Specifically, ethical work climates encompass the established ethical values, norms, attitudes, feelings, and behaviors of employees." (pp. 175-176).

Agarwal and Malloy (1999) provided another useful discussion of the distinction between organizational climate and culture, arguing that although these two concepts are often used interchangeably, they are actually different. According to them, "Climate refers to the members' *shared perception* of how the organization operates whereas culture refers to the administration's and the members' *assumption* about how the organization *does* and *ought* to operate" (p. 2). Furthermore, climate is "a manifestation of organizational culture, whereas culture subsumes climate" (p. 2). Likewise, Victor and Cullen (1988) believed that ethical climate is a subset of organizational climate, and defined it as "the shared perceptions of what is ethically correct behavior and how ethical issues should be handled" (p. 51).

The above comparison of the definitions of ethical business culture and ethical business climate shows that there is a significant overlap between the

two constructs. In both cases shared values and beliefs are central themes. Whereas some authors insist on making a clear distinction between ethical culture and ethical climate, others believe that the difference is not significant and both constructs can be used interchangeably. Schminke et al. (2005), referring to Trevino, Butterfield, and McCabe (1998), concurred that factor analysis did not indicate that the two constructs are distinct enough to be treated separately. Overall, we agree that climate is a subset of culture. Therefore, when discussing characteristics of ethical culture, we include sources discussing both ethical culture and ethical climate.

Attributes of Ethical Business Cultures

A number of studies attempted to link various attributes of business cultures to ethical behavior (Frederick, 1995; Trevino & Nelson, 2004). Thus, Trevino, Weaver, Gibson, and Toffler (1999) demonstrated that an ethical culture is associated with a structure that provides for equally distributed authority and accountability that is widely shared. It has policies embodied in a code of conduct and/or code of ethics that is clear, well-communicated, specific about expected procedures and practices, thoroughly understood, and enforced. In addition, incentive systems are deliberately and clearly tied to behavior in concert with a code of ethics and the accomplishment of noneconomic goals as well as economic outcomes (Trevino & Weaver, 2001). Gabler (2006) suggested that in a strong ethical culture, capable of withstanding challenges to its integrity, employees have "a sense of responsibility and accountability for their actions and for the actions of others . . . and freely raise issues and concerns without fear of retaliation" (p. 339). In such a culture, managers and leaders also have a well-defined set of responsibilities.

> Managers model the behaviors they demand of others; Managers communicate the importance of integrity when making difficult decisions; Leadership understands the pressure points that drive unethical behavior; Leadership develops processes to identify and remedy those areas where pressure points occur. (Gabler, 2006, p. 339)

Some of the elements of an ethical business culture could be classified as part of its formal structures and procedures, whereas others are more informal in nature. The *formal part* includes mission and vision statements, codes of conduct, processes for socialization of new employees, decision-making processes, and so on. A business organization that is perceived as characterized by an ethical culture has a socialization process which on a daily basis reinforces the practice of the values, communicated in a mission statement. Such organizations pay significant attention to the issues of health and safety of employees, customer and community responsiveness, and fairness. The decision-making processes in an ethical culture are designed to consider the ethical ramifications

of business decisions instead of cost–benefit analyses alone. Trevino and Weaver (2001) found that employee perceptions of fairness or justice in an organization had a central importance in creating an ethical culture. Small (2006), in his study of ethical cultures in three business organizations, found that the presence of an explicit code of conduct, clearly communicated to all employees, was an important indicator of the strength of the ethical dimension of a corporate culture. In addition, Small suggested that other important formal elements of ethical corporate cultures are training programs in ethics for managers, internal policies for resolving ethical issues, and the right tone, set by the top leadership.

The *informal elements* of an ethical business culture are less tangible and are harder to observe and communicate explicitly. Trevino and Brown (2004) argued that such intangible aspects include norms for behavior that are consistent with the ethical standards or the codes of conduct, mission statements, and formalized decision-making processes. The core of the informal base of an ethical culture is constituted by organizational values. Dion (1996) defined values as ". . . basic determinants of human behavior and social attitudes," as defining "what is desirable and acceptable to an individual (personal values) or a society (societal values)." (p. 333). According to Dion, organizational values are shared by organizational members and serve as a source of collective identity and as guidelines for behavior in organizational contexts. Dion also acknowledged that ethical dilemmas are likely to emerge, because it is hard to expect that all employees will always have the same values, and organizational values are likely to conflict with values of at least some of the individual members. Dion (1996) cautioned that development of strong organizational values could be associated with certain risks, especially the risk of obsolescence (changing economic and environmental conditions could make the existing values obsolete and a hindrance to progress). Nevertheless, the actualization of organizational values forms the foundation for organizational norms, which can be conceptualized as specific prescriptions for conduct (Carroll, 1989; Dion, 1996).

Ethical values are viewed as a subset of organizational values. In some cases, espoused organizational values do not include ethical values. Feldman (2007) pointed out that the Philip Morris value statement, which includes an emphasis on the freedom of choice (defined in this case as freedom to smoke or not to smoke), competitiveness and winning, individual initiative, equal opportunity, hard work, and continuous self-improvement, consists mostly of instrumental values and does not seem to demonstrate serious concern with ethical issues.

Other elements of the informal ethical culture include role modeling of ethical behavior; the belief in heroes and role models; metaphors, used in discussions of organizational values; and myths and stories about ethical standards of the organization being upheld and revered by members (Dion,

1996; Schein, 2004; Trevino, 1990). Having a powerful impact on the way individuals in organizations think and act, these modes of expression play a crucial role in shaping ethical cultures by inspiring members to behave ethically (Dion, 1996). Organizational rituals also help to strengthen the informal culture by providing reinforcement and affirmation of the ethical values over time. Finally, the language and metaphors used by organizational members play an important role in shaping behavior in the informal ethical culture. Use of moral or ethics *talk* to address problem-solving and decision-making situations creates an awareness of the ethical dimension of such processes. Research shows that ethical cultures have leaders and members who engage in ethics talk regularly in pursuit of organizational activities (Dion, 1996; Trevino, 1990).

Feldman (2007), in his study of business organizations, perceived as having ethical cultures, found that ethical cultures develop early on (usually, at company's founding). The founders often articulate moral visions "that define the moral purpose of profit and the business context for how profit should (and should not) be pursued" (p. 157), and make an effort to implement and maintain these visions throughout all the stages of the organization's growth and development. Furthermore, Feldman pointed out the need for achieving the balance between profit motives and concern for the moral implications of business decisions. He found that some of the studied companies (including HP, Merck, Medtronic, Canon, and others) strive to strike this balance in their day-to-day operations and strategic decision making. Feldman also stated that he was surprised to find, "given the widespread belief that the purpose of business is to make profit and the centrality of finance in the culture of business schools, that some [successful] businesses give profit maximization a secondary priority" (p. 161). He listed Sony Corp., Johnson & Johnson, Motorola, and HP, among others, as examples of companies that explicitly state the goal of achieving *fair* profits, not profit maximization.

Although the above discussed studies of ethical business cultures were based either on surveys or on reviews of company documentation, a study by Ardichvili, Mitchell, and Jondle (2008) took a different approach and involved interviews of executives from a variety of industries who were asked to describe general characteristics attributed to ethical business cultures. The study results suggested that, in the opinion of the interviewed executives, ethical cultures are characterized by the following five groups of attributes: (a) Moral missions and ethical values are among the main drivers of all organizational decisions; (b) Organizations strife to achieve balance between the interests of all stakeholders; (c) The organizational leadership is playing a central role in modeling and promoting ethical behavior; (d) There is an alignment between ethical values and day-to-day operations and decision making on all levels; (e) The long-term perspective takes precedence over short-term profit considerations.

The Role of Ethical Leadership

In our review, one factor emerged as a key influence shaping ethical business cultures: the role of leadership. An acknowledgement that morality and ethical behavior of leaders is a prerequisite for creating an ethical business culture can be found in the earliest works on management and organization. Thus, Chester Barnard (1938) listed the creation of a moral framework among the main functions of an executive. Perhaps the best formulation of the view that leaders are responsible for ethical climates and cultures of their organizations was provided by Aronson (2001): "Ethical behavior on the part of the leader would appear to be a necessary condition for the establishment of an ethical organization . . . CEOs are obliged to set a moral example for organizational members" (p. 245). Furthermore, Thomas, Schermerhorn, and Dienhart (2004), discussing the role of leadership in creating ethical business cultures, asserted that "Leaders can and do move the ethics centers of gravity in organizations. But they must accept that in their behavior and example rests the capacity to do this with great good or great harm" (p. 63).

Some of the reviewed articles suggested that there is a direct relationship between leader's values and morality and the quality of ethical business culture or climate (Bass & Steidlmeier, 1999; Brown & Trevino, 2006; Ciulla, 1998; Dickson, Smith, Grojean, & Ehrhart, 2001; Kanungo & Mendonca, 1996, 2001, Sims & Brinkman, 2002; Trevino, 1990; Trevino et al., 1999). Schminke et al. (2005), and Sims and Brinkman (2002) argued that leader's ethical framework and morale judgment influence organizational culture by contributing to the creation of ethical cultures or climates. Schminke et al. (2005) have taken this argument a step further, by demonstrating in their empirical study that the hypothesized relationship is more complex and should account for specific actions taken by the leaders. They found that the relationship between a leader's moral development and an organization's ethical climate was moderated by the leader's utilization of their moral reasoning.

Other authors discussed specific behaviors, characteristic of ethical leadership (Collier & Esteban, 2007; Minkes, Small, & Chatterjee, 1999; Seidman 2004; Trevino & Brown 2004; Trevino, Brown, & Hartman, 2003). Among these behaviors are concerted efforts to assess and understand the organizational culture through culture surveys and other methods; implementation of ethics training programs, which encompass all employees of the organization; introduction of ethics into decision making on a regular basis; and the use of ethical standards in all performance evaluation and disciplinary action decisions. Brown, Trevino, and Harrison (2005) argued that leaders who are perceived as being able to create and support ethical cultures in their organizations are also able to represent, communicate, and role model high ethical standards. Likewise, Minkes et al. (1999) argued that employees' respect for ethical requirements depends on organizational leadership's

behavior. Bird and Waters (1989) indicated that ethical leaders engage in "ethics talk," and Brien (1998) suggested that business leaders need to actively promote ethical ideas in communicating with employees and other stakeholders. Maier (2002) proposed that leaders who are attempting to create ethical cultures should use more collaborative than controlling approaches, and should emphasize more values- than outcome-focused programs.

Trevino et al. (2003) suggested that ethical leadership should be based not only on role modeling and leaders' personal moral development, but should also include transactional components involving communication of ethical values and vision and the systems for rewarding ethical behavior. Likewise, Brown et al. (2005) asserted that "Ethical leadership emerges out of a combination of characteristics and behaviors that include demonstrating integrity and high ethical standards, considerate and fair treatment of employees, and holding employees accountable for ethical conduct" (p. 130).

The above discussion of the dual role of leaders (role modeling and inspirational motivation, on the one hand, and transactional behaviors, associated with rewards and punishments, on the other), suggests that ethical leadership research was influenced by the transformational leadership model (Bass, 1998). According to Avolio (1999), transformational leaders "can be counted on to do the right thing" and have "high standards of ethical and moral conduct" (p. 43). However, leadership researchers acknowledge that transformational leaders can be unethical if they act based on their own selfish considerations rather than altruism. This led one of the originators of the transformational leadership theory, Bernard Bass, and his colleague to make a distinction between authentic and pseudotransformational leadership (Bass & Steidlmeier, 1999). These authors suggested that authentic transformational leaders base their actions on the consideration of the interests of their followers and the society in general, whereas pseudotransformational leaders are using the altruistic rhetoric and act based on their selfish motives. However, Price (2003) criticized this attempt to address the shortcoming of the transformational leadership construct by pointing out that: "To the extent that this theory holds that altruism suffices for ethical success, it misses the fact that leaders sometimes behave immorally precisely because they are blinded by their own values" (p. 67).

Ethical Cultures and Authentic Leadership

A recent addition to the lineup of leadership theories, authentic leadership, seemed to be a natural choice for inclusion into our review, because this construct incorporates a significant emphasis on individual values and ethical considerations (Avolio & Luthans, 2006; Gardner, Avolio, & Walumbwa, 2005; George & Sims, 2007; Walumbwa, Avolio, Gardner, Wernsing, & Peterson, 2008). Gardner, Avolio, Luthans, May, and Walumbwa (2005) and Avolio and Gardner (2005) argued that authentic leadership includes leader's

self-awareness, self-regulation, as well as moral perspective and high ethical standards that guide decision making and behavior. Liedka (2008) asserted that most business and organizational studies do not discuss the philosophical roots of authenticity and use the popular notion of this concept, which could be summarized simply as being true to oneself and one's values (e.g., Ilies, Morgeson, & Nahrgang, 2005). Liedka further developed an argument that understanding the deeper philosophical roots of the concept helps us to tap the full potential of this powerful concept and, as a consequence, better understand the connection between authenticity and ethics. Thus, she referred to Heidegger's (1962) notion that authenticity is developmental, and is a process of becoming, of uncovering and developing one's hidden potential "by way of the activities that we pursue and the things we take care of" (Heidegger, 1962, p. 159, quoted in Liedka, 2008, p. 239). She further developed this line of thought by asserting that authenticity is determined by choices we make in our everyday activities and that practicing authentic behavior leads to the formation of moral character. Finally, strong moral character forms the foundation for ethical behavior both on individual and on organizational levels.

Uhl-Bien and Carsten (2007) pointed out that although the dominant paradigm of organizational leadership views leaders as being the role models of ethical behavior, this paradigm often ignores the role of the followers and the fact that they can assume a leadership role in promoting ethical decision making and opposing unethical behavior of their supervisors. Uhl-Bien and Carsten suggested that, to promote such employee-based ethical leadership, organizations need to create climates where ethical norms are consistently discussed and communicated by the leadership; strong ethical codes of conduct are established; a system is put in place to report unethical behavior (this system needs to be supported by a strict assurance that employees are protected from any retaliation for reporting incidents); there is recognition that ethical leadership is distributed throughout the organization and is not the prerogative of top management alone; and questions and debate are rewarded (p. 198).

Our review further suggests that there is a strong connection between personal moral development of leaders and organizational members and the development of the whole business into an entity that is based on strong moral principles. Mendonca (2001) insisted that ethical leadership is achieved through personal self-transformation of leaders into moral human beings. Moore (2005) made a distinction between corporate culture and corporate character, arguing that culture is based on a set of externally oriented values, whereas character is something more deep and grounded in virtues. Small (2006) has concluded based on his empirical research, that "Virtue ethics refer to honesty, good personal relations, teamwork and trust" (p. 591).

Thomas et al. (2004) introduced a concept of ethical mindfulness, defined as "enriched awareness among organizational members regarding the potential for catastrophe and resulting in an ever-present conscious engagement of personal responsibility to prevent its occurrence" (p. 60). Thomas et al. (2004)

referred to John Dewey's notion that ethics can be conceptualized as *reflective conduct*, as a process in "which ethical thinking becomes a foundation for ethical action" (p. 61). They also suggested that ethics mindfulness is part of an individuals' moral self-identity, a form of self-regulation that results in consistent application of ethical standards and ethical decision making in a variety of situations. According to Thomas et al., the main factor in developing and sustaining such moral awareness among organizational members is the creation of a moral business culture and presence of moral leadership, which serves as a role model and a source of continued inspiration and an example of ethical behavior and decision making.

In summary, our review suggested that ethical business cultures are based on an alignment between formal structures, processes, policies (including codes of ethics or codes of conduct), related training and development programs, consistent ethical and authentic leadership behavior of top executives and managers of the organization, informal recognition of heroes, stories, rituals, and the use of metaphors and language that inspire organizational members to behave in a manner consistent with high ethical standards that have been set by executive leadership.

Elements of Ethical Culture Programs

Whereas the above sections summarized factors shaping ethical business cultures and discussed characteristics and attributes of such cultures, in this section we review studies, which address another key question: What are current corporate practices and what are specific recommendations for creating programs, promoting ethical business cultures?

A number of reviewed studies suggested that formal elements (codes of conduct, procedures for reporting, etc.) constitute only one of the needed ingredients and cannot guarantee the success of ethical culture programs on their own. Thus, based on a review of studies of corporate ethics codes, published since the year 2000, Stevens (2008) concluded that codes are an effective instrument for promoting ethical behavior in organizations. At the same time, Stevens found that for codes to be effective, they need to be combined with other factors and activities. Specifically, two factors were found to be of special importance in augmenting the impact of codes of conduct:

> Culture and effective communication are key components to a code's success. If codes are embedded in the culture and embraced by the leaders, they are likely to be successful. Communicating the code's precepts in an effective way is crucial to its success. (Stevens, 2008, p. 601)

Likewise, discussing the factors that have contributed to the Enron scandal, Gabler (2006) pointed out that Enron had all the required elements of official

ethics and compliance programs in place, including a code of ethics, a reporting system, and a training program. However, according to Gabler (2006), it was

> [C]ulture of the company that brought out the worst in some top executives, and inaction and passivity on the part of many others . . . Culture is the leading risk factor for compromising integrity and compliance in companies today. (p. 337)

Weaver, Trevino, and Cochran (1999) discussed the lack of alignment between formal ethics programs in organizations and their everyday practices. Similarly, Collier and Esteban (2007) indicated that although in the United Kingdom, 90% of FTSE 100 companies have ethics codes of conduct, a survey of major U.K. companies by the Institute of Business Ethics suggested that "there appears to be a widening gap between a company's stated values and principles and their relevance to organizational practice" (p. 21). Weaver et al. (1999) and Mendonca (2001) asserted that although codes of ethics help establish principles and guidelines for ethical behavior in organizations, and help the leaders to navigate the complex business ethics issues, encountered by them every day, having these codes in place is not a guarantee of ethical behavior of individual employees and managers. What is more important, according to Weaver et al., is "consistency between policies and actions, as well as dimensions of the organization's ethical culture such as ethical leadership" (p.131).

Schminke et al. (2007) contrasted two types of ethics programs in organizations: formal rule-based and less formal values-based programs. Whereas rule-based approaches emphasize prevention and corrective actions in response to detected violations, values-based approaches aim at defining organizational values and motivating employees to adhere to these values in their actions. According to Schminke et al. (2007), in organizations where values-based approaches are implemented, employees act ethically not because they are afraid of punishment, but because they share the ethical values of the organization and its leadership. On the other hand, rules-based approaches are less effective than values-based approaches. However, to be effective, values-based programs need to be supported by well-thought-through and managed rules-based programs as well.

Small (2006), in a study of ethics programs in Australian organizations, identified three conditions, crucial for the development of ethical corporate cultures.

> CEOs were ultimately responsible for the ethicality of their organizations; formal training programs were necessary to impart the required knowledge; and formal mechanisms were essential to facilitate the reporting of any behavior of organizational members that was deemed to be wrong, unethical or illegal." (p. 588).

Furthermore, Small (2006) argued for establishing "procedures involving work processes (e.g. finishing tasks), behavioral processes (e.g. decision

making and communicating), and change processes (individuals growing and adapting over time) which can promote and foster the development of positive ethical corporate cultures" (p. 589).

Trevino et al. (1999) and Weaver and Trevino (1999) in their studies of ethics programs in U.S. corporations identified two types of such programs: those oriented mostly to compliance and those with values orientation. In a study of ethical programs in a large financial services company, Weaver and Trevino (1999) found that the value orientation made more significant contribution to such outcomes, as ethical awareness, employee commitment, willingness to deliver bad news, ethical advice seeking, and the overall decrease of unethical behavior in the organization. Similarly, Thomas et al. (2004) argued that there are two types of corporate ethics programs: integrity programs and compliance programs. Whereas compliance programs are aimed at assuring conformity to externally imposed rules and standards, and emphasize laws and regulations, integrity programs "are designed to encourage shared commitment by employees to responsible self-managed conduct" (p. 63).

Paine (1994) described two orientations for corporate ethics programs: They either are compliance-based or anchored on a values-based approach. According to Paine, ethics programs with a compliance bent are usually created by corporate legal officers and focus on combating violations of the law through prevention, detection, and correction/punishment. Value-based ethics programs, on the other hand, nurture ethical culture through a more holistic, systemic approach that elevates and integrates ethical decision making into all functions of an organization.

Collier and Esteban (2007) suggested that ethics programs in corporations could be driven either by external forces (e.g., Federal Sentencing Guidelines in the United States) and be, thus, oriented towards compliance, or could be based on values, and created by the executive teams who are genuinely concerned about ethics. Collier and Esteban (2007) stated that "Compliance programs are likely to elicit conformity; values programs are likely to elicit commitment." (p. 25). However, they also indicated that the two types of programs do not have to be mutually exclusive, and could coexist in the same organization, strengthening each other and contributing to the development of an ethical culture.

In summary, although various authors use different terms and classification schemes to describe the types of programs, there are two main categories: programs focused on compliance with the formal codes and rules of conduct and those focused on the development of ethical culture and promoting shared by organizational members' ethical values. Research, conducted by the Ethics Resource Center identified six components of a formal ethics and compliance program: (a) formalized policy identifying ethical conduct, (b) training, (c) availability and access to advice or information, (d) ability to report misconduct, (e) process to investigate and discipline employees for wrongdoing,

and (f) ethics as a component of an employee performance review process (Seligson and Choi, 2005). These characteristics mirror the seven steps outlined in the Federal Sentencing Guidelines (United States Sentencing Commission, 2004) as a response to the Sarbanes–Oxley Act and various list agencies (e.g., NYSE Standards, NASDAQ Corporate Governance, Conference Board Report and SEC Rules).

Discussion, Conclusions, and Implications for HRD

In this section, we first briefly summarize the main conclusions, based on the literature review. Then we discuss our suggestions for future research directions, and conclude with recommendations for enhancing the role of HRD in developing ethical business culture programs.

Our review indicated that ethical business cultures are based on an alignment between formal structures, processes, policies, related training and development programs, consistent value-based ethical behavior of top leadership, informal recognition of heroes, stories, and the use of rituals, metaphors, and language that inspire organizational members to behave in a manner consistent with high ethical standards. Personal moral development and authenticity of leaders is an important contributor to the overall ethical climate and culture of the organization. Finally, when developing ethical culture programs, business organizations need to address not only formal compliance requirements but also need to take a step further and focus on identification of a set of corporate values and the alignment of those values with all other elements of the culture, including day-to-day operations of the organization.

One of our conclusions is that, contrary to assumptions of the essentialist and determinist schools of moral philosophy, ethics in organizations is not the results of individual virtue or environmental and structural factors alone. It is, rather, a result of practice-based interactions among multiple organizational actors and outside stakeholders and is highly interpretive in nature (Knights & O'Leary, 2006). It depends on social construction and interactive interpretation of values and is, thus, constantly evolving. Ethical thinking and behavior can be learned and internalized as a result of these interpretive interactions. This learning process constitutes an important part of organizational learning and development.

Brown et al. (2005) proposed the social learning lens to explain how ethical leaders affect the followers' ethical behavior (through role modeling and personal example of living morally and *walking the talk*). However, a dyadic relationship between leaders and followers is just one dimension of such interaction. Culture is much more than that. It consists of shared values and norms, which reside not only in individual employees, but also in artifacts of the organization—its codes of conduct, mission statements, strategic planning documents, organizational routines, and operating procedures. Social learning theory does not take these important elements into account.

To satisfactorily analyze the phenomenon of ethical business culture, a framework is needed that explains the relationship between individuals within an organization, the tools they use, the activities they engage in, the environment they operate in, and the multiple stakeholders outside the organization. A framework is needed to explain how people and organizations learn through these complex interactions. (In the specific case of building and sustaining ethical culture development, how they learn to behave ethically.) The theoretical frameworks that afford such comprehensive analysis are the Vygotskian cultural–historical psychology and the situated learning theory.

The situated learning perspective is based on ideas, first advanced more than 70 years ago by Lev Vygotsky (1978). Vygotsky focused his research on understanding how intelligence and cognitive abilities emerge in interactions between individuals and their social and cultural contexts. Central to Vygotskyan theory is the concept of cognition and knowledge creation as a result of dynamic interaction between subjects of learning, artifacts, and social others (Ardichvili & Yoon, 2008). According to Vygotsky, humans develop their identities while engaged in activities which are mediated by various tools. These tools can be tangible (e.g., print material or production equipment), or intangible and psychological (e.g., organizational values, procedures, routines, informal rules of behavior, rituals), and are constantly evolving in activities. Tools are not just formed by current practices, but are also a function of the history of their emergence and past development (Ardichvili & Yoon, 2008). The situated learning perspective further developed Vygotskian ideas by asserting that organizational knowledge is an integral part of practice (Lave & Wenger, 1991; Wenger, McDermott, & Snyder, 2002), and the organizational knowledge is produced by individuals (subjects), engaged in productive practices (Gherardi, 2001). According to Wenger (1998), the ultimate product of work and organizational learning activities is meaning, and the process of organizational learning goes hand in hand with the process of developing learners' socially situated identities. At the same time, organizational activities are full of contradictions, arising from tensions among system components, and these tensions could be both driving system's evolution and could also be hampering its development (Cole & Engeström, 1993).

Thus, the situated learning and cultural–historical perspective suggest that the emergence of ethical business cultures is inseparable from the development of individual moral identities of organizational participants. This development occurs in the process of participation in work-based productive activities and learning activities, and is mediated by the interaction between organizational members, environmental factors, and organizational tools and artifacts (including codes of conduct, training programs and materials, value statements, etc.). Therefore, to understand how ethical business cultures evolve, we need to understand the evolution of key organizational activities and systems, related tools, relationships between individual organizational players and various groups of stakeholders, both within and outside the organization.

The proposed approach to studying the development of ethical business cultures calls for in-depth longitudinal qualitative studies, conducted in a limited number of organizations, selected as examples of successful implementation of ethical culture programs or for being recognized as organizations having strong ethical cultures. Although such qualitative studies allow an in-depth understanding of the mechanisms, leading to the creation of ethical business cultures, the results of such studies are not readily generalizable to large variety of businesses. If the goal is to understand what are the general characteristics, shared by numerous ethical business cultures, large-scale survey-based studies are appropriate. Because our literature review failed to find existing instruments for measuring the dimensions of ethical business cultures in a variety of business organizations, one of the directions for future research that we would like to suggest would be to develop, test, and implement such a survey instrument, based on successive iterations of surveying random samples of respondents, representing organizations in major industries and sectors of the economy. Lists of characteristics for inclusion in the survey instrument could be generated either using the grounded theory approach based on open-ended qualitative interviews of key informants (Ardichvili et al., 2008) or derived from a literature review.

Our review has uncovered a number of promising directions for future research, which would involve further exploration of links between the ethical culture construct and various antecedents, moderators, and outcomes. The relationship between the ethical culture and ethical (and authentic) leadership constructs needs to be clarified. Furthermore, when dealing with a global business organization, what is the relationship between organizational and national (or ethnic) cultures? Finally, an empirical study explaining the impact of ethical corporate cultures on financial performance needs to be conducted. Although some earlier studies have documented the existence of the relationships between corporate social responsibility and financial performance (e.g., Orlitzky, Schmidt, & Rynes, 2003), to our knowledge, there are no studies to date which have explored the relationship between financial performance and ethical cultures.

The argument, advanced in this article, suggests that ethical business culture emerges as a result of the interaction between individual moral development, situational factors (including those shaping current and historical development of the system), tools, and various stakeholders. To play a leading role in establishing ethical business cultures, HRD will need to effectively and efficiently engage in a system of interrelated and well-coordinated activities. The most important of these activities should focus on culture change efforts aimed at the creation of organizational culture, conducive to desirable ethical behavior. To achieve sustainable results, this effort needs to be supported by the creation of a dynamic and constantly evolving program of ethical education and training for employees on all levels of the organization. This includes the incorporation of ethics in leadership development programs, creation of

mentoring and career development programs that foster ethical culture, development and strengthening of ethical decision-making skills, the creation and review of codes of ethics or codes of conduct, and succession planning focused on sustaining the ethical culture already created.

A lasting impact on the organization can only be achieved if the organizational values are fully integrated into all HRD interventions and day-to-day operations. Because values develop and strengthen in interactions and through personal example, HRD practitioners, being among the most visible carriers and promoters of organizational values, must act as role models of ethical behavior within the organization. Furthermore, because the tools have a decisive impact on our ability to achieve desired outcomes, to serve as the catalyst of ethical culture transformation, HRD needs to reexamine currently used models and frameworks. As correctly pointed out by Hatcher (2002), the majority of current applied models of HRD and Performance Improvement are not based on considerations of social responsibility and business ethics and, thus, limit HRD's ability to create ethical business organizations. These models are "noticeably silent on the impact at both the societal and environmental levels" (Hatcher, 2000, p. 18). Therefore, as suggested by Hatcher (2002), new models for HRD work should incorporate not only considerations of economic outcomes and individual, group, or organizational performance and efficiency, but also outcomes related to business organizations' impact on society, community, and the environment.

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