

# Chapter 1

## The Ethics Portfolio: Building and Promoting Ethical Culture in an Organization

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### ABSTRACT

*This chapter examines ways in which organizations can build and promote an ethical culture. This chapter is divided in four sections. Firstly, the authors provide a historical overview of “ethics” in the U.S. and mainly from an organizational perspective, noting specifically how ethics is built into the structures of corporations. Secondly, they discuss the imputed responsibilities for ethics, arguing whether the ethics portfolio in an organization should reside within the Human Resource (HR) department or some other departments. Thirdly, the authors offer examples of various approaches that firms have traditionally used to promote ethical behaviors. Finally, they conclude with a discussion on ways that firms can enhance their ethical culture, with guidance on how to manage resistance of such a change that accompany such enhancement closing with an examination of various methods that might assist in determining if an organization is ethical.*

### INTRODUCTION

From a philosophical perspective, ethics involves issues of right and wrong conduct (Schumann, 2001). The notion of ethics, defined by Boatright and Patra (2011) as “the study of morality” (p. 38), touches every aspect of human life and society. It manifests itself, for example, in our personal, social, religious, and professional lives. Ethical

issues are also deeply embedded in the economic and social fabric of our society, such as politics, medicine, education, economics, and business (Schminke, Caldwell, Ambrose, & McMahon, 2014). The ubiquity and dominance of ethics and ethical guidelines, notwithstanding, individuals, organizations, and society continue to grapple with ethical demands and dilemmas (Weaver & Brown, 2012). This can be attributed, in part, to the

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corporate scandals involving organizations such as Enron and other large businesses, coupled with a series of government bailouts of big corporations in the US (Morgenson, 2014), an issue that was repeated throughout the globe following the Global Financial Crisis in 2008/2009. In addition, rapid advances in technology, leading to a deluge of e-businesses, virtual companies, and expansion of multinational companies worldwide have resulted in many ethical challenges and concerns facing the world in the 21<sup>st</sup> century (Beck, 2002; Palmer & Stoll, 2014).

Thus, there are several important and big questions that face us: How do individuals, organizations, and society at large respond to such challenges? Should we move towards more complex legislative approaches through the introduction of new laws and guidelines, for example, to govern and guide human behavior? Should ethics be built into the structures of corporations? What can we do to encourage ethical behavior and discourage unethical behavior? Clearly, these are key questions that merit some serious attention by academics, researchers and practitioners.

In view thereof, this chapter endeavors to participate to this debate, and attempt to address some of these issues. In particular, it discusses the imputed responsibilities for ethics and offer example of various approaches that firms can and might use to build and promote ethical behaviors. Towards this end, the chapter is divided into four sections. In section one we will provide our readers with a brief historical overview of ethics from an organizational perspective, noting specifically how ethics is built into the structures of corporations in the form of codes of ethics, ethics officers, ethics committees, and ethics training. In section two we will address the imputed responsibilities for ethics arguing the issue as to whether the ethics portfolio should reside within the functions of the HR department or some other department within the organization. In section three we will provide an examination of various approaches which corporations have traditionally used to promote

ethical behaviors. Yet, despite these initiatives, the chapter argues that ethical misconduct is on the increase. Our argument, therefore, in this chapter, is that an ethical transformation is needed to guide both individual and corporate behaviors in the 21<sup>st</sup> century. Thereafter, and in section four we will discuss how firms can achieve this ethical transformation at an individual level, (e.g., employee perceptions) and an ethical cultural revolution at a corporate level (e.g., shared organizational members' perceptions). Specifically, this section will examine ways that firms can implement change to enhance their ethical culture, with guidance on how to manage resistance of such a change that accompanies such enhancement concluding and ending this chapter with an examination of various methods that might be used to determine if an organization is to be categorized as being ethical.

### **Historical Background of Ethics in the USA: A Characterization**

While intellectuals, academics and researchers from diverse disciplines have traced the evolution of ethics from three different but mutually related perspectives, such as academic, economic and commercial, and organizational (De George, 2008; McDaniel, 2004; Simha, & Cullen, 2012), this chapter endeavors to address the latter perspective. Many of the principles governing organizational ethics have their origin in the works of Jeremy Bentham (1879), John Stuart Mills (1872), John Rawls (1971) and others (Johnson, 2007; Schumann, 2001). While each theorist had examined ethics from a slightly different perspective, the basic tenants of their argument support a moral framework to guide human behavior. Although early organizational ethics was concerned with managers and workers as moral agents with rights and responsibilities, (De George, 2011; Johnson, 2011) most emphases were placed on the organization as an entity, including all its functional areas such as finance, marketing, manufacturing, and research and development (Boatright & Patra,

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