

## Organisational culture and behaviour

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### Introduction

Culture is described as the DNA of a firm (Jenkins et al., 2008), its ethics personality (Trevino & Nelson, 2021). The influence of an organisation's culture, climate or environment on the ethical behaviour of its people is evidenced in academic theory and research, as well as in many of the cases of organisational misconduct that come to light. Regulators are increasingly focusing on culture to prevent organisational misconduct, appreciating that in many cases of such misconduct, the cause is not unethical people but often unethical cultures, leadership and systems.

This report defines culture and ethical culture, a subset of organisational culture that shapes ethical or unethical behaviour. Further, it provides theoretical and research insights on the formal and informal components of ethical culture, as well as its impact on ethical behaviour.

### Definition of ethical culture

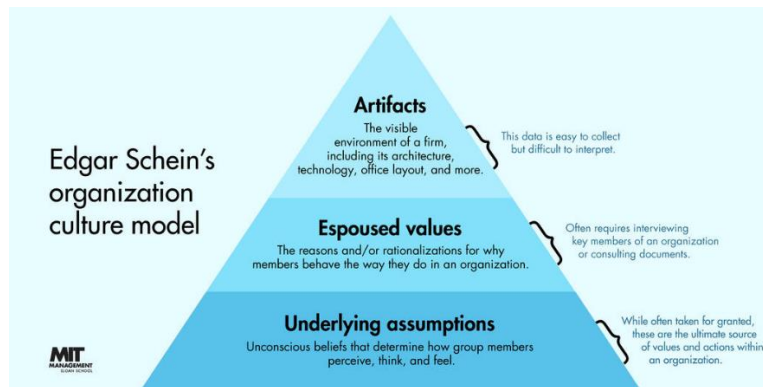
Deal and Kennedy (1982) provide the simplest definition of culture: the way we do things around here. A more descriptive definition of organisational culture is provided by Schein (2010), one of the foremost authorities on culture and leadership: "a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (p. 18).

Culture is "the collective programming of the mind that distinguishes the members of one group or category of people from others" (Hofstede et al., 2010, p. 6). Vaughan (1998) describes culture as "a set of solutions produced by a group of people as they interact about situations they face in common" (p. 37). These solutions become institutionalized, remembered and passed on as the rules, rituals, and values of the group.

To understand culture, an understanding of what influences the way we do things in the organisational context is required, enabled by an insight into the levels of culture. Schein's (2010) three levels of cultural analysis are artifacts, espoused values and underlying assumptions (Figure 1).

Understanding the underlying assumptions, enables the interpretation of artifacts and espoused values, as artifacts and espoused values are manifestations of the underlying assumptions. Culture, according to Schein, is not what we see in an organisation, nor its values or philosophy. At its core, culture is the shared tacit assumptions that are reflected in the values and behaviours.

Figure 1: Levels of cultural analysis



Source: Somers (2023)

Social units, including nations, ethnic groups, or professions have cultures. For Schein (2010), professional culture requires a strong socialization process during the education and training period which makes beliefs and values learned during this time “stable as taken - for - granted assumptions even though the person may not be in a group of occupational peers” (Schein, 2010, p. 21).

While culture influences behaviour, ethical culture is particularly concerned with ethical or unethical behaviour. Ethical culture is “a subset of organisational culture that reflects the shared values, norms, and beliefs about what constitutes appropriate behavior shaping ethical or unethical decision-making in an organisational context” (Roy et al., 2024. p. 99). Ethical culture is how we do things around here in relation to ethics, a complex system that sends messages to employees that support or do not support ethical conduct (Trevino et al., 2017).

Ethical climate is a related concept, which has been found to be highly correlated to ethical culture. Victor and Cullen (1987, pp. 51-52), who developed a framework of ethical climates that ignited interest on ethical climate research, define the ethical climate of an organisation as “the shared perceptions of what is ethically correct behavior and how ethical issues should be handled”. The ethical climate, according to Victor and Cullen, is one dimension of the work climate, which reflects and helps to define the ethics of an organisation.

While some researchers view ethical culture and ethical climate as the same, Trevino et al. (1998) see ethical climate related to attitudes and ethical culture more specifically to influences on behaviour. “An organization whose leaders represent high ethical standards and who reward ethical conduct [i.e. ethical culture] is also an organization that values its employees, its community, and obeying the law [i.e. ethical climate]” (Trevino & Weaver, 2003, p. 256).

Ethical climates influence employee ethical decision making, with a focus on the moral reasoning processes utilised by employees when they make ethical decisions (Arnaud & Schminke, 2012). “Climate reflects employee perceptions of the policies, practices, and procedures that the organization rewards, supports, and expects. It is these perceptions of their work environment that drive employees’ attitudes and actions” (Schminke et al., 2007, p. 175). Kaptein (2011) distinguishes ethical climate, which refers to employees’ perceptions about what is the right thing to do, from ethical culture, which is procedural and

relates to whether employees' believe the conditions are in place in the organisation for ethical behaviour.

Despite the different definitions and constructs, theory and research highlight the role of ethical climate, ethical culture or ethical environment on employees ethical or unethical behaviour.

A relevant finding is that executives and senior managers tend to have a more positive view of the ethical culture of the organisation than people in lower hierarchical levels. This is also true in accounting firms, as Bobek et al. (2010) found statistically significant differences of the ethical environment of firms between tax partners and non-partners, with tax partners more likely to judge the overall firm and firm leadership as ethical. The perception of a stronger ethical environment by partners, according to Bobek et al., may be due to a lack of awareness of the perceptions and experiences of lower-level practitioners.

In accounting firms, Pierce (2007) identified that firms are becoming more commercially focused and less concerned with their public interest obligations, contrary to the image generally portrayed by the profession of a noble and ethical activity, while Duska (2005) argues that wealth accumulation and a dismissal of traditional auditor responsibilities, had led to a compliance culture without a sense of ethical responsibility. Alberti et al. (2022) in reviewing the literature of audit firm cultures find that commercialism is more prevalent than professionalism, firm leadership focuses on profits and partner compensation is largely based on gaining and keeping clients.

### Subcultures

Different ethical cultures can exist within one organization when a group of employees, such as a team or a department, works together over a period of time (Schminke et al., 2007).

Organisations have cultures and subcultures. A firm may have an overarching culture and different culture across functional areas such as tax, audit, and consulting, or even between teams in those functional areas. Further, culture may differ across ranks within a firm and among the individual offices of large firms (Jenkins et al., 2008, p. 50). Cabana and Kaptein (2021) found that team ethical culture reduced the frequency of unethical behaviour among members of the team, while Schaubroeck et al. (2012) found that leaders of higher organisational levels who exhibit a high level of ethical leadership can influence leaders in lower levels of the hierarchy, transmitting ethical culture through the different levels of leadership and across units, with ethical culture at higher hierarchical levels positively related to ethical culture at lower hierarchical levels.

### Strong and weak cultures

A strong culture may not be a good culture. In a strong organisational culture, people's behaviour will be more homogenous, while in a weak culture, team or local norms will be more important than organisational norms. Ethical organisations, including firms, are built on ethical cultures, climates, environments. A strong ethical culture enables people to make ethical decisions and results in improved organisational performance. Perceptions of a strong ethical culture can positively influence the ethical behaviour of professional accountants (Bobek et al., 2010).

Ethical climates provide a powerful supplement to regulations and codes (Schminke et al., 2007). As Schminke et al. state: "Formal ethical control systems—both external and internal—matter. Informal ethical control systems like ethical climate matter even more. Ethical climate can be measured, and therefore can be managed" (p. 183).

### Key elements of, and influences, on ethical culture

Ethical culture is a multidimensional interplay among various 'formal' and 'informal' systems of behavioural control, which exist in organisations, that are capable of promoting ethical or unethical behaviour (Trevino et al., 1998). For formal systems to be effective “they must be part of a larger, coordinated cultural system that supports ethical conduct every day” (Trevino & Brown, 2004, p. 73). Figure 2 outlines the formal and informal components of an ethical organisational culture.

Figure 2: Components of ethical culture



Source: Trevino et al. (2017, p. 61)

Importantly, alignment of formal and informal systems is necessary for an ethical culture to exist, with all systems sending consistent ethical messages. While all formal and informal systems contribute to create and sustain an ethical culture, “leaders set the stage for all things ethical in an organization” (Schminke et al., 2007, p. 184), with ethical leadership the most examined antecedent of ethical culture (Brown & Trevino, 2006; Brown et al., 2005, Trevino et al., 2017). Leadership is considered a key influence on culture, with quantitative and qualitative research evidence of the strong link between ethical leadership and ethical culture (Roy et al., 2024). Trevino et al. (2017) argue that “senior leaders are critical to establishing an ethical culture—they provide resources for effective programs, send values-based messages, and serve as role models for ethical behavior and the use of ethical language. They have the potential to influence every other system within the organization” (p. 62). While leaders are one of the components of ethical culture they influence all other formal and informal elements and can enable their alignment and integration.

Schein (2010) outlines primary and secondary leadership embedding mechanisms, which create and reinforce culture.

#### Primary embedding mechanisms

- What leaders pay attention to, measure, and control on a regular basis
- How leaders react to critical incidents and organisational crises
- How leaders allocate resources
- Deliberate role modelling, teaching, and coaching
- How leaders allocate rewards and status
- How leaders recruit, select, promote, and excommunicate

## Secondary embedding mechanisms

- Organisational design and structure
- Organisational systems and procedures
- Organisational rites and rituals
- Design of physical space, facades, and buildings
- Stories about important events and people
- Formal statements of organisational philosophy, creeds, and charters

Primary and secondary mechanisms work simultaneously and communicate culture to people within the organisation and to newcomers, affecting the thinking, feelings and behaviour of individuals and groups.

Theory and research suggest that leaders greatly influence organisational ethics, they set the tone at the top and shape culture (Trevino & Brown, 2005). They communicate ethical standards and reinforce ethical conduct with rewards and punishments (Trevino et al., 2000). Employees' perception that executives and supervisors sincerely care about ethics has been associated with the amount of unethical conduct observed in the organization (Trevino et al., 1999).

Ethical leadership requires leaders who are moral persons and moral managers (Trevino et al., 2000). As moral persons, leaders are trustworthy and have ethical characters, they make ethical decisions and behave ethically. As moral managers, leaders set ethical standards and expectations, role model ethical behaviour, communicate ethics and reward ethical behaviour.

While executive leadership is a fundamental element of culture, in a strong ethical culture with aligned formal and informal systems, individual leaders may be less influential (Trevino & Brown, 2005). Trevino and Brown comment that most followers will choose to do what is expected by their supervisors unless the ethical culture is so strong that the followers believe that reporting unethical supervisors will be supported. Alternatively, some organisations have a strong culture that supports unethical conduct. In such an environment, it is unclear how much a single supervisory-level leader can do to change the situation.

Ethical culture is influenced by industry sector, organisational type, organisational ethical infrastructures and ethical leadership and influences the behaviour of people. A body of research has explored the antecedents of ethical culture as well as the mediating role of culture and the outcomes of ethical culture. Roy et al. (2024) reviewed and synthesised over two decades of research on ethical organisational culture, presenting the main groups of antecedents, such as national culture, ethical leadership, codes of ethics, ethics programs and training, and personal characteristics, as well as organisational (innovation, performance, practices and ethical behaviour) and individual (ethical decision-making and intentions, work attitudes, motivation engagement and well-being, and employee behaviours) of ethical culture. Appendix one contains the diagrammatic overview of antecedents and outcomes of ethical culture, reviewed by Roy et al.

## The impact of ethical culture on ethical behaviour

Ethical culture is the product and determinant of behaviour, capable of easily inducing ethical or unethical behaviour. The ethical culture of an organisation is an important, if not the most important,

component of the organisational context that explains unethical behaviour (Kaptein, 2011), with research confirming a strong link between ethical culture within the organisation and the ethical behaviour of employees (Hiekkataipale & Lämsä, 2019).

Ethical behaviour is the outcome of ethical awareness and ethical judgement. While both are needed, an ethical judgement does not necessarily lead to ethical behaviour, as individuals may know what the right thing to do is but do not always do it, due to influences and pressures, including those exerted by the context they find themselves in, the organisation's culture. Trevino and Brown (2004, p. 71) explain that "moral judgment focuses on deciding what's right—not necessarily doing what is right. Even when people make the right decision, they may find it difficult to follow through and do what is right". The organisational environment (including ethical culture) influences the relationship between judgements and behaviour, with contextual factors having a significant impact on behaviour (Pierce, 2007). Experiments from social psychology (such as Milgram's obedience to authority, Asch's conformity, Zimbardo's prison experiment, bystander effect etc.) demonstrate the power of the context and the influence of the role, social group and expectations. Creating a culture that talks, thinks and rewards ethics can help people behave ethically.

The general consensus about ethical decision making in organisations is that it is affected by the characteristics of the person making the decision (values, character, personality, identity, ethics education, etc.), the environment (culture, industry, ethical leadership, codes, ethics programs, reward systems) and the issue (moral intensity) (see Craft, 2013). Research evidence clarifies that people's decisions and actions are heavily influenced by the situations they are in (Prentice, 2015). Prentice explains that people may act unethically when they feel time pressure and exhaustion; when they find themselves in an organisation where ethical standards are eroding; when they feel mistreated; if they have to gain a lot by doing the wrong thing; if they face a loss; if those around them are behaving unethically. Good people can easily be influenced to behave unethically and rationalise their choices.

The awareness of the influence of the environment on ethical conduct has increased over the last twenty years, with evidence that both individual and organisational characteristics influence ethical decision making. Ashkanasy et al. (2006) explain: "The 'bad apples' perspective blames unethical conduct on morally flawed individuals whose personal characteristics predispose them to behave unethically. The 'bad barrels' perspective links unethical behavior to an immoral organizational ethos, where subordinates succumb to organizational influence to comply with corporate transgressions" (p. 449).

An ethical culture, helps people identify the moral issues they face, make moral judgements and behave in line with these judgements.

## Conclusion

"Most people are the product of the context they find themselves in. They tend to 'look up and look around', and they do what others around them do or expect them to do" (Trevino & Brown, 2004, p. 72), or as more forcefully put by Philip Zimbardo (2005) "you can't be a sweet cucumber in a vinegar barrel". Schein (2010, p. 193) observes "...when we see the essence of a culture — the paradigm by which people operate — we are struck by how powerful our insight into that organization now is, and we can see instantly why certain things work the way they do, why certain proposals are never bought, why

change is so difficult, why certain people leave, and so on. It is the search for and the occasional finding of this central insight that makes it all worthwhile. Suddenly we understand an organization; suddenly we see what makes it tick”.

Organisational misconduct, unlike misconduct against the organisation, generally involves many people. Individuals acting together “can produce morally objectionable events and states of affairs that no individual acting alone could produce” (McMahon, 1995, p. 550). As Sharp-Paine (1994) explains “rarely do the character flaws of a lone actor fully explain corporate misconduct. More typically, unethical business practice involves the tacit, if not explicit, cooperation of others, and reflects the values, attitudes, beliefs, language, and behavioural patterns that define an organisation’s operating culture” (p. 106).

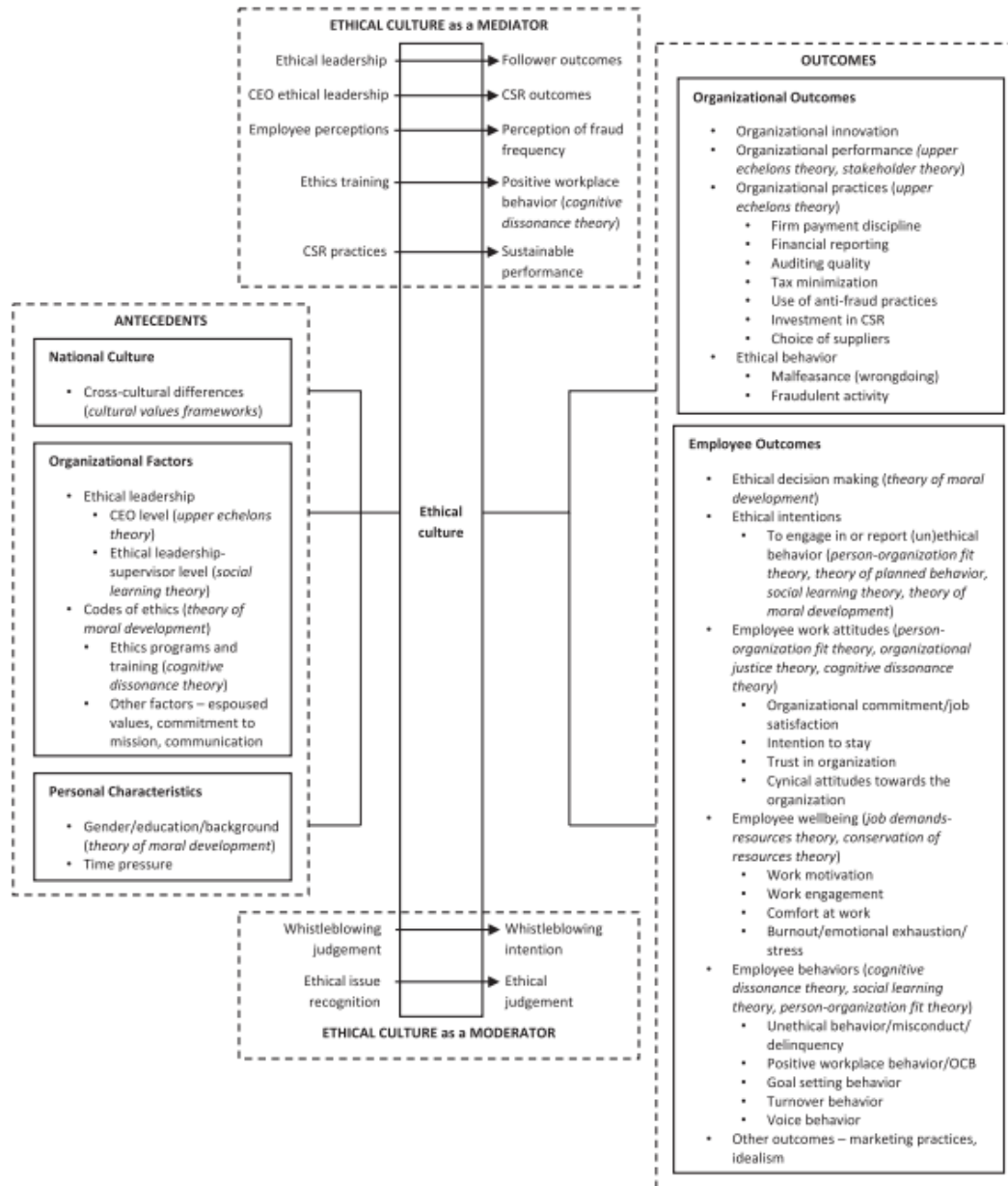
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## Appendix 1: Antecedents and outcomes of ethical culture



Source: Roy et al. (2024, p. 100)