The importance of an ethical climate in an organization

Business, Management

Organizations rely on many factors to run smoothly and efficiently. Any issues that arise can affect the daily work flow of employees. Due, to these issues it is imperative that an organization has created an ethical environment. Today's society has been going through major changes morally, religiously, and politically which, makes it even more important that an organization has established its ethical climate. (Chouaib & Zaddem, 2013) These changes have sparked unethical behaviors in the nation causing organizations to enhance their ethical climate.

To handle the unethical issues that arise, organizations must use decision making practices based off their ethics. Unfortunately, research has been shown that even though individuals are able to make rationale judgements, they do not always act ethically. (Kinicki, 2017) Certain biases have been identified that have affected an individual's moral decision-making process. (Kinicki, 2017)

The purpose of this paper is to identify the importance of an ethical climate in an organization and the biases that may hinder that environment. Also, we will look closely into the Toshiba scandal and how that unethical issue effected the organization. A different view of the situation will be presented and how the moral decisions of the company could have been executed.

All organizations are based off some sort of ethical climate. (Kokemuller, 2017) The ethical climate is the moral atmosphere of a work environment and how those ethics are practiced throughout the organization. (" Organizational Ethical Climate", n. d.) An organizations ethics are the policies, procedures, and culture that has been established to help

individuals face difficult situations. (Leonard, 2018) It is very important that all individuals have a clear understanding of what an organizations ethical standards are. The leaders of a company must promote and demand the ethical behavior of an organization in order to shape its ethical climate. (Kokemuller, 2017) When all individuals are aware of what is expected of them, they are then able to promote the ethical standards as well.

When organizations do not properly establish an ethical climate, an unethical one may take its place. An unethical climate is when questionable behavior takes place and there is little action being taken to correct it. (Kinicki, 2017) This is why implementing a company's ethical standards is so important. By having these standards in place, it can eliminate a lot of behaviors deemed as unethical. If an ethical climate is implemented properly, individuals have the knowledge on how to deal with unethical behaviors when they arise. Organizations can proactively create an ethical climate by its leadership, formal policies, and establishing its core values. (Kinicki, 2017) These factors shape the decision-making process of individuals in order to handle unethical behaviors. Having an ethical climate helps to keep an organization strong and running smoothly.

One would think after establishing an ethical climate the decision-making aspect of it would be easy. Unfortunately, this is not the case. An abundance of research has been done on the decision-making process and the biases that have impacted it. (Kinicki, 2017) These biases can consciously or unconsciously hinder an individual's decision making process (Kinicki, 2017) One of these biases is that affects decisions making is in-group favoritism.

This is when individuals tend to favor members in one's own group over those in another group. (Everett et. al, 2015) An example of this type of bias can happen when applying for a job. Many companies have been known to hire internally instead of the applicants who work for different companies. The applicant from the hiring company becomes the " in" group and the outside applicant is the " out." The hiring team then favors the employee who is already in the " in" group therefore, discriminating against the applicant from the outside company. (Kinicki, 2017)

Overclaiming credit is another way biases can affect an individual's decision-making process. When working as a team or a group, individuals tend to overrate their own quality of work and contributions. (Kinicki, 2017) This can happen when individuals think they contributed more to a job then they really did. Kinicki (2017), gives the example of a poll BusinessWeek magazine did. The poll asked executives and managers, " If they were in the top 10 percent of performers in their company." Results showed that over 90 percent of responders placed themselves in the top 10 percent. (Kinicki, 2017) This means 80 percent of responders overrated their quality of work. These individuals have a misconception of what type quality performance they are putting forward.

Even individuals who perceive themselves as fair-minded also have biases. (Kinicki, 2017) It is very important that individuals can identify when their opinions are being skewed by bias thoughts. When individuals lack awareness of their bias opinions that is when cracks can form in the workplace. Organizations want to be strong and powerful but, this can only

happen when each individual puts their bias thoughts to the side. For instance, the example that was previously given about individuals who rate their quality of work higher than what it really is can cause issues in the office. When a manager is looking at these self-assessments they may be misled on who is really doing the best job. This can lead to the wrong person getting the recognition they deserve causing friction in the office. Organizations are more likely to prosper when there is very little bias involved in decision making.

Now that we have a better understanding of an organization's ethical climate, we can take a closer look at a situation where ethical climate was jeopardized. One would think the likelihood of an unethical issue arising in an organization would be close to zero since there is so much research on it. Unfortunately, this is not true. Unethical behaviors still occur in major organizations and even make headlines. One ethical issue that we will investigate is Toshiba's accounting scandal in 2015.

Toshiba has been a well-known company for years that have made millions off their electronic products. When Toshiba started making the news for a compromising topic their consumers were shocked. In 2015, the CEO of Toshiba, Hisao Tanaka, announced he was resigning due to an accounting scandal linked to 1. 2 billion in overstated products. (Carpenter, 2015) Tanka, was not the only CEO to fall into fire during this investigation. Reports showed that improper accounting took place over 7 years involving 2 other CEOs of the company. (Carpenter, 2015)

The scandal came to light when the Financial Service Agency suspected accounting irregularities. (Nagata, n. d.) This suspicion sparked a thorough investigation of the company. The investigation went so deep that Toshiba finally admitted to their accounting struggles (Nagata, n. d.) The investigation examined how the company got away with the scandal for so long. The investigation committee found a series of inappropriate accounting entries where profits were overstated, losses were pushed back, and charges were also pushed back. (Carpenter, 2015) The CEO's were found to be involved in manipulated the system and there were no practices in place to stop them. (Nagata, n. d.)

The culture at Toshiba did not allow lower level employees to go against the upper management team. (Nagata, n. d.) Obedience was demanded by the executives. (Carpenter, 2015) The CEO's created a work environment where they wanted to achieve excellence, and no one could stop them. The pressure that was placed on employees to make profits was extremely high (Nagata, n. d.) The executives set high targets for their profits and would demand the employees to improve the results. (Nagata, n. d.) Failure was not an option for the CEO's of Toshiba. When employees would get their profit targets at the end of the month it became clear to them they would only be able to achieve the desired number by using inappropriate accounting techniques. (Carpenter) Investigation found that Toshiba had a weak governing system where they did not function properly to identify and stop the inappropriate behavior that was occurring. (Carpenter, 2015)

After the investigation Toshiba has made statements on how they will move forward. Toshiba promised to examine the results of the investigation thoroughly. The investigation report included recommendations to prevent this type of practice from happening again. The reports stated there should be a reformation of corporate culture, the profit targeting system should be eliminated, and a strong corporate governance should be reestablished. (Carpenter, 2015) A whistleblower system was also recommended so that employees can use it without fear of punishment. (Carpenter, 2015) Toshiba is making it a priority to follow these recommendations to gain trust back in their company and consumers.

The practices and behavior that were occurring at Toshiba during this time were completely unethical. The inappropriate behavior started form the top with the CEO and trickled down to the lower level employees. Initially, the CEO's are to blame for not establishing an ethical climate. The culture at Toshiba was based off fraud, lies, and fear. (Parsons, 2016) The executives did not lead by example. (Parsons, 2016) Instead, they created an environment where they supported unethical behavior. The employees who did not try to stop or report the behavior that was occurring are also deemed as unethical. (Parsons, 2016) The individuals that were involved in the scandal compromised their integrity by falsifying the accounting information, their empathy by not realizing how their pressures affected others and their respect by not valuing the lower level employees. (Parsons, 2016) The lower level employees should have been able to step in a report the behavior that was happening but, the environment did not allow that. Those individuals

were afraid of failing their superiors therefore, they kept quiet because they did not want to lose their jobs. All of these behaviors are how Toshiba was structured around an unethical climate.

When looking closely at this scandal one may ponder how the situation could have been handled in a different manner. Organizations that function off an ethical climate use a set of moral guidelines to ensure things run smoothly. (Kinicki, 2017) Leaders are able to establish an ethical organization through different actions. One of these actions is creating formal ethical policies and procedures. Creating formal statements of ethical standards, reporting mechanisms, and display procedures is almost vital to maintaining an ethical climate. (Kinicki, 2017) If Toshiba would had implemented moral principles starting with their CEO's then all employees would have been expected to follow the same values. Having a clear reporting mechanism would have been used for the lower level employees to report the unethical behavior. Having a way to report this behavior makes individuals less scared in coming forth with certain information. If the Toshiba company had stated what the penalty or punishment was for breaking its policies, the hired employees would be hesitant in breaking them. If Toshiba was rooted in certain policies and procedures that supported an ethical environment, they may have avoided the whole scandal.

With ethical issues continuously arise in organizations it is imperative that an ethical climate has been set. When the ethical climate is in place an organization can run more efficiently. Although, there are factors that can interfere with an ethical climate it is important that individuals know they

exist like the biases that can occur during decision making. When individuals are aware of these factors there is less of a chance of seeing corruption or scandal in one's organization. Ethics will always be an important feature that helps build the structure of an organization. This is why it is so important each individual has a clear understanding of its ethical climate.