# Role of corporate culture in business ethics research paper examples

Business, Company

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Introduction

Corporate culture is the true asset of a company. A strong positive culture is evident in cases of many companies such Johnson and Johnson, Southwest Airlines and Google. These companies take pride in their corporate culture. If corporate culture can be an asset for some companies, it can also be a liability for some other companies. The contrast of asset and liability in respect of corporate culture can be seen in two companies – Starbucks Coffee Company and General Motors. Starbucks is known for strong positive culture linked to its entrepreneurial success, while the systematic decline of General Motors can at least in part be attributable to a dysfunctional culture. (Flamholtz & Randle, 2011: vii).

# Corporate Culture and its Role in Business Ethics

Before dwelling on corporate culture and its role in business ethics, we need to know what is the corporate culture and how does it link to business ethics. According to Ferrell and Ferrell (2014), " A corporate culture can be defined as a set of values, beliefs, goals, norms and ways of solving problems that members (employees) of an organization share". Over the years, in the perception of the stakeholders, organizations or companies appear as an intelligent organism with its own will and mind. For example, the Walt Disney Company requires that its new employers take a course in the history of this company including the ethical dimension of the company. Another example to highlight the corporate culture is that of the American Express Company. Tillustra he corporate culture of this company stresses on how employees are ready to help customers out of difficult situations. There are stories and legends of former employees who have gone beyond the call of duty to help customers. These stories and legends reinforce the image of the company as an ethical being or entity. A company's ethical culture is an important component of the company's corporate or organizational culture. When the employees of a company perceive their company as an ethical company, they are less likely to take unethical decisions or conduct themselves unethically (Ferrell & Ferrell, 2014: 126-127).

Corporate culture has a significant relationship with ethical decision making. A company's success or failure can in fact be attributed to corporate culture. Some companies are recognized for their strong ethical culture. They represent the character of the entire organization. For instance, some of the companies recognized as casual companies, yet characterized by strong ethical character include Hershey Foods, Ben and Jerry's Homemade Ice Cream and Levi Strauss. The examples of companies with more formal ethical cultures include Texas Instruments, Procter and Gamble, and Lockheed (Ferrell & Ferrell, 2014: 185).

Does it then mean that companies ought to have a code of ethics in place in order to emerge as ethical companies? Not everyone agrees that corporate code of ethics is a good idea. According to critics, there are inherent dangers for organizations, if employees are not well versed in ethical code of conduct, the companies have in place. It is quite possible that with an impeccable ethical code in place, the employees may encounter ambiguities in doing business with companies that do not distinguish between ethical and unethical business practices. Ethical companies may find it nearly impossible to survive in third world nations, where business morality is lax. The codes of ethics do not recognize the need for tolerance of diverse practices. In comparison to an ethically sound company, its unethical competitor may likely gain business advantages while operating in a corrupt nation. There is the danger with ethical code that employees working for such companies will not take advantage of business opportunities (Mitchell, 2009: 95).

However, despite these drawbacks, in the long run, the best and the most successful companies are the ones that have ethical code and ethical culture in place. If a company fails on account of poor ethics, the best course for them is to repair their trust and ethical frame work. Here is a case study of Siemens, the German engineering giant that can be illustrative in this discussion. In 2006, Siemens was accused of bribery on a massive scale. Employees of this company were detected siphoning off millions of Euros so as to make bribery payments. The reputation of the company was badly hurt. In Germany, in particular and Europe in General, use of bribe money to advance business used to be a normal practice, at least till 1999. The expenses incurred in bribery were not taxed in Germany till 1999. Later, this policy came to be revised under pressure from America (Leigh, 2013: 56). The best course for Siemens at the time to survive in business was to take steps to put an end to corrupt practices and emerge as an ethical company. The company went ahead with its plan to revamp its compliance structure and put in effect a series of measures including change in strategy and culture to emerge among the most ethical companies (Dougherty, 2008).

In other words, the best companies also try to remain ethically best because it adds to their reputation and is in their business interest. The stakeholders trust the companies that are also ethically sound. In other words, a strong corporate culture is mutually advantageous to both employees and employers because corporate culture is a set of values and beliefs shared by employees. These values help shape employees' satisfaction with the employers, which eventually impact the quality of service they provide to the customers.

A company's culture or corporate culture is expressed both formally and informally. Formally, this culture is expressed through codes of conduct, dress code, manuals, memos and ceremonies, while the culture is expressed informally through anecdotes, work habits, extra-curricular activities and norms followed in the workplace. The culture of a company provides meaning to its members and sets rules on how to behave and deal with problems encountered in course of work.

The ethical tone of a company is set by the senior leaders in the company. Lower level managers on the other hand obtain their cues from the top managers. However, they too leave an impact on the company with their personal values. In other words, a company's ethical value system is determined by the corporate culture and executive leadership. There are some other forces, too, that help develop business ethics a company adopts but they are not entirely divorced from the corporate culture. For instance, the influence of co-workers also determines the ethical choices a worker makes. There are certain gray ethical areas that are not black and white. In such areas, the ethical choices largely depend on the influence of co-workers. A worker is more likely to behave unethically, if he/she is exposed more to the unethical behavior. Most workers take their cues from co-workers on how to solve a particular problem facing them in the organization. For example, according to 2007 National Business Ethics Survey (NBES), 56 percent employees witnessed at least one instance of misconduct over the past year but nearly 42 percent among them chose not to report the violation (Pride and Ferrell, 2010: 108).

Although a company may have a strong corporate culture along with code of ethics in place, yet the company can land into trouble and its trust could be badly hurt. However, such companies can come out of the trouble, if they are ethically sound and take ethical steps to repair the trust. The example in this case is that of Mattel. The company had to recall multiple products in 2007, when this toy giant learned that some of the products supplied from China had high levels of lead content (Story, 2007). Lead paint could cause serious health problems for users (children), if they ingested the lead content.

For Mattel, it was relatively easy to deal with the problem and repair the lost trust, but for a company that did not have a strong corporate culture and ethical code of conduct; the same could have been difficult. Mattel is recognized for trustworthiness and it has a model code of conduct for overseas production and sound business ethics.

Mattel took some of the steps as follows: the company recalled all products sourced from China and the very same day, ceased production in the same facility, cooperated in investigations and undertook a huge public information campaign to alert the parents of the dangers associated with playing with the company’s toys and went on to prescribe strict production quality and inspection. The CEO of the company made a solemn promise that he would change how he worked in future, although nothing could be done for what had happened in the past (Warner, 2007).

The significance of this case lies in the fact that Mattel could repair its trust rapidly by addressing the problem successfully because of the company's strong corporate culture and its reputation as an ethical company. In other words, if the company had actually favored cheap Chinese manufactured toys to cut corners, the company might have foundered. However, the company had failed to inspect the work of contractors and sub-contractors, which was a problem that the company addressed quickly.

A large number of studies have shown that the development of an ethical corporate culture is advantageous to businesses. The business advantages are both tangible and intangible. An ethical corporate culture supports the interaction and behavior of employees and managers. An ethical culture is good business decision for several reasons. It attracts stakeholders because a company gains competitive advantage by differentiating itself from the competitors.

The strong corporate culture helps a company protect its reputation and brand because the culture is communicated and perceived internally as well as externally. This also helps attract new talented manpower. Companies with an ethical culture, where integrity and values are important, not just profit will also have more pleasant workplace leading to increased productivity and hence will be advantageous. In other words, while ethical companies do not focus directly on profits, they are eventually profitable because they have a talented pool of workers, who can work under optimal conditions. In addition, the senior managers and leaders who choose to work in a company because of its reputation, the organization gains competitive advantage (Wulf, 2012: 361).

Studies have also gone on to show that just because a company has a code of conduct, and ethics and compliance program doesn’t mean that employees will behave ethically or will comply with laws. Employees can easily determine if a program is simply ‘ window dressing’. Therefore, it is important that ethics and compliance messages are aligned with the running of the company on a day to day basis. An organization can attempt to develop an ethical culture that fosters ethical behavior so that the employees can develop greater trust in the company they are working for (Wulf, 2012: 361).

Companies that have positive reputation for ethical principles tend to gain advantage over their competitors. It has been observed in the examples and case studies of the companies that during the time of crisis, strong corporate values can guide through the process and help the company come successfully out of the crisis.

There are important reasons why companies should develop strong ethical behavior which goes beyond the financial bottom-line. Business leaders who understand that there are enough empirical evidence to show that ethical behavior and good corporate governance have several advantages for stakeholders and companies will steer their businesses in the right direction. The research evidences clearly show that companies can reap higher profits, positive financial performance, high return on equity, higher return to stakeholders and several other tangible and intangible benefits as a result of ethical behavior a company adopts as a part of its strong corporate culture. On the other hand, unethical behavior on the part of a company can entail huge costs. These increased costs may result from increased operational, legal, public relations and marketing costs. In fact, unethical behavior can cause irreparable damages of reputation that can never be compensated unless the company takes quick action. There are a large number of examples of companies that collapsed because of the unethical practices they adopted. These companies may likely suffer one or more among different types of costs including direct and indirect costs and long term costs under operational, legal and public relations costs (Nelson et al., 2008).

Research evidences indicate that cultural forces explain better than any other factor/s why workers in an organization behave ethically or unethically. However, in the short run it could be difficult to impact culture towards corporate goals.

Nevertheless, companies like Siemens undertook the colossus challenge of transforming the culture of their organization through large scale education programs across their international units with hundreds of thousands of workers spread across globally. Their efforts made a tremendous impact and within few years of undertaking this exercise Siemens once again established its reputation.

Several other companies have bounced back from the ultimate lows that cost their reputation by focusing on ethical culture. There are also several examples of companies that had to wind up their operations because their ethics was beyond repair.

# Conclusion

In conclusion, it is evident that corporate culture plays a significant role in the business ethics adopted by a company. The corporate culture of a company can be compared to the personality of an organization. Just as a person can be known to be honest or dishonest, good or bad and enjoy different shades of reputation, the companies also enjoy diverse shades of reputation and may be known as good or bad, or ethical or unethical.

Critics have argued that developing ethical culture for an organization may not be a good idea after all because in the current phase of globalization, firms and companies operate globally and hence may have to deal with unscrupulous clients in the regions where moral values are lax. The companies with strict ethical regime will be at a disadvantage against their competitors who do not care about ethics.

However, the argument above offered by critics does not support the actual practice as evidenced by a large number of studies. There are a large number of studies that go on to show the advantages associated with an ethical culture. The disadvantages for dishonest companies are also huge entailed by the risks associated with costs incurred due to dishonest business practices.

There have been times, when ethical companies have landed in controversies. The ethical companies under such circumstances have taken rapid steps to build and repair their trust. They could stand tall once again because they were focused to doing ethically right. However, under the same circumstances, companies that do not have a strong corporate culture are likely to founder.

Therefore, it can be seen that there is a clear link between corporate culture and business ethics. The companies with best corporate cultures are known to behave ethically and that is also the reason for their success.

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