Organizational ethics and maintaining an ethical environment through employee involvement

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ORGANIZATIONAL ETHICS AND MAINTAINING
AN ETHICAL ENVIRONMENT THROUGH
EMPLOYEE INVOLVEMENT

by

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Bachelor of Science
Brigham Young University, Provo, Utah
1994

A thesis submitted in partial fulfillment
of the requirements for the

Master of Arts Degree in Ethics and Policy Studies
Department of Ethics and Policy Studies
College of Liberal Arts

Graduate College
University of Nevada, Las Vegas
August 2004
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Entitled

Organizational Ethics and Maintaining an Ethical Environment
Through Employee Involvement

is approved in partial fulfillment of the requirements for the degree of

Master of Arts in Ethics and Policy Studies

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ABSTRACT

Organizational Ethics and Maintaining an Ethical Environment Through Employee Involvement

by

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With the promulgation of the Federal Sentencing Guidelines in 1991 organizations as a whole began implementing Ethics Programs. Greater attention was being given to organizational behavior and the courts were now able to hold organizations accountable for misconduct with stronger sanctions.

Organizations have now had more than ten years to implement their Ethics Programs for effectiveness. Yet today we see numerous cases of unethical decisions in organizations, most of them having Ethics Programs or Codes of Ethics in place, with results of the unethical behavior being as serious as loss of life, trust, millions of dollars, employment etc.

It appears that there is a gap between the Guidelines intentions for the nation and their ability to enforce them. This thesis will review the components of ethical and unethical organizational cultures and make recommendations for maintaining ethical organizations in order to reduce the harm that is caused by unethical behavior.
# TABLE OF CONTENTS

ABSTRACT ............................................................................................................................. iii

ACKNOWLEDGMENTS ....................................................................................................... vi

INTRODUCTION .................................................................................................................. vii

CHAPTER I ORGANIZATIONAL ETHICS AND ORGANIZATIONAL CULTURE .. 1
   Introduction ........................................................................................................................... 1
   Organizational Ethics ............................................................................................................ 4
   Organizational Culture .......................................................................................................... 7
   Self-deception ...................................................................................................................... 12
   Administrative Evil .............................................................................................................. 16
   Exit, Voice, Loyalty ............................................................................................................ 20
   Ethical Culture ..................................................................................................................... 25
   Conclusion ........................................................................................................................... 32

CHAPTER II FEDERAL SENTENCING GUIDELINES ................................................ 35
   Introduction ......................................................................................................................... 35
   Legal Decisions ................................................................................................................... 39
   Federal Sentencing Guidelines .......................................................................................... 43
   Post Guidelines Court Decisions ....................................................................................... 47
   Additional Changes with the Promulgation of the Federal Sentencing Guidelines ..... 50
   Review of Guidelines After More Than a Decade of Practice ....................................... 54
   Shortcomings ....................................................................................................................... 57
   Critical Reviews ................................................................................................................. 61
   Conclusion ........................................................................................................................... 64

CHAPTER III EFFECTIVE ETHICS PROGRAMS ....................................................... 66
   Introduction ........................................................................................................................... 66
   Corporate Culture and Leadership ..................................................................................... 69
   Corporate Culture and Employee Involvement ................................................................. 70
   Case Studies ........................................................................................................................ 72
   Lip Service ........................................................................................................................... 77
   Focus on Profits ................................................................................................................... 81
   Moral Obligations ................................................................................................................ 85
   Conclusion ........................................................................................................................... 87

CHAPTER IV LEARNING ORGANIZATIONS .............................................................. 89
   Introduction ........................................................................................................................... 89
ACKNOWLEDGMENTS

I would like to thank Dr. Craig Walton for his willingness to be my Committee Chair, his suggestions for resources and for his many hours spent reviewing my thesis. I would like to thank Dr. Townley for her valuable feedback, which helped me improve my arguments and make my thesis stronger. I would like to thank Dr. Zundel for his assistance and feedback and Dr. Gilbert for serving as my Graduate College Representative. I would like to thank everyone for being so flexible and accommodating to with regards to scheduling my defense.
INTRODUCTION

In 1989 a study entitled "The Importance of Ethics to Job Performance: An Empirical Investigation of Managers' Perceptions" was performed to measure peoples' perceptions of corporate misconduct. This study indicated that people's perceptions were that many corporate activities were unethical (Cleek and Leonard 1998, 619-630). A few years earlier (1983), a survey performed by the Wall Street Journal found that 65% of Americans believed that the overall levels of ethics in society were declining (Cleek and Leonard 1998, 619-630). Because of the perception of so much unethical behavior, especially in those organizations that had good reputations, there began to be a heightened awareness of ethical issues. In 1999, Vershoor summed up a growing consensus in society that "Americans are holding the management of large public corporations to greater ethical accountability. Corporate directors are paying greater attention to the importance of intangible corporate assets like a highly motivated workforce, trustworthy suppliers, a loyal customer base and most important, a reputation for fair dealing" (Vershoor, Winter 1999, 407-415).

The Federal Government joined the struggle to increase ethical behavior in organizations. In 1991, the United States Sentencing Commission (USSC) promulgated the Federal Sentencing Guidelines for Organizations (Guidelines), after being assigned the task of developing legal guidelines for sanctioning organizations that participate in illegal/unethical behavior. The Federal Sentencing Guidelines promote the "carrot and stick" method. This method entices organizations with the offer of lesser penalties (the
carrot) for becoming more ethical through implementing ethics/compliance programs, and hands out severe punishments (the stick) if organizations are sanctioned for illegal behavior (USSC, 2001).

We can look at the recent cases of the NASA space shuttle Columbia and Enron for evidence of unethical/illegal behavior that is occurring in some of our more reputable organizations. The Columbia space shuttle was damaged at take off, when outer foam broke off the shuttle. There were several different personnel in various departments of NASA, who raised “red flags” about the risk involved because of the damage at take off. All efforts by the employees of NASA to do further research to find out the impact of this event were eventually silenced and those who had concerns were told there would be no risk (Washington Post, Hilzenrath, March 1, 2003; Colombia Accident Investigation Board Report Volume 1, August 2003). Employees, specifically engineers, in NASA’s organization did not pursue their concerns further. Leadership convinced the engineers and other interested parties that the astronauts would be safe and the damage at take off would not impact the mission. As a result, several lives, trust and billions of dollars that had been spent on the space shuttle program were lost (Colombia Accident Investigation Board Report Volume 1, August 2003). This case will be discussed in more detail later in this chapter and in Chapter III. Chapter III will argue that NASA did not follow their code of ethics that was in place.

In Enron’s case as reported by David Bushell of the Boston Globe, even with codes of ethics in place, “there were tremendous cultural gaps” and the company’s focus was on profits and arrogance, not ethical behavior (Boston Globe, June 23, 2002). The company’s “profit at any cost attitude” was modeled to their staff, encouraging anyone
who could get benefits for the company (even if the facts had to be fudged a little) to participate in this behavior. The unethical behavior eventually got so out of control that Enron went bankrupt, negatively impacting many lives, including stockholders, employees and clients. It appears that in this situation no codes of ethics were enforced, or for that matter modeled by leadership, and employees who may have attempted to bring these problems to leadership were shut down, as reported in an article published on the University of Ohio website titled Business Ethics Misconduct With Focus on Arthur Anderson/Enron Case (2002). These are just two of the most publicized examples of how an unethical organizational culture can negatively influence organizational behavior. These organizations had code of ethics/ethics compliance programs in place, but the organizational culture did not support these programs; thus, much of the organizational behavior was not ethical.

With the promulgation of the Federal Sentencing Guidelines (1991) and increased focus on ethical behavior the academic and professional field of organizational ethics began to develop (Horvath, 1995). With the mandate from the Guidelines, organizations as a whole began implementing codes of ethics or ethics/compliance programs. With ethics programs in place, the assertion by the USSC was that there would be a decrease in unethical behavior and an increase in more honest business and governmental practices, more supportive leadership, more employee satisfaction, better production, less theft and increased communication (USSC, 2001).

The question then is, have organizations had positive results or reduced illegal/unethical behavior after ethics/compliance program implementation? Where this has not happened when the organization does have an ethics/compliance program, why
not? And why is there such a large gap (if it is large) between what the Federal
Sentencing Guidelines intended to accomplish and what is actually occurring? And how
important are the roles of leadership example and employee involvement in the
implementation of these programs? This thesis will address these concerns and argue
that there are significant gaps in the ability of the Guidelines to deter illegal/unethical
behavior or monitor compliance with the Guidelines. Because of this inability to deter
and monitor, additional support systems are needed to support those in organizations and
their employees who do report illegal actions. It will also be argued that leadership
example and employee involvement are necessary to successfully implement and
maintain ethics/compliance programs and to keep the organization as a whole ethically on
track.

In Chapter I, Organizational Ethics and Organizational Culture, Charles Horvath
will demonstrate the strong influence organizational culture has in determining the
behavior of members in an organization. Howard Schwartz’s (1990) views on how
organizations become unethical through the influences of self-betrayal (acting contrary to
instincts) (Covey, 2000) and organization decay (systematic ineffectiveness) will be
presented. Stephen Covey (2000) builds on Schwartz’s (1990) arguments and introduces
self-deception, which puts blame and responsibility on others for our inappropriate
actions or lack of action. Guy Adams and Danny Balfour warn that many times unethical
behavior is masked and those participating can often be unaware of it, so it is very
difficult to detect. When organizational leadership participates in self-betrayal or self-
deception and promote organizational decay, this can lead to unintended harmful effects.
or “administrative evil” (Adams and Balfour, 1998). Albert Hirschman (1970) and Edwin Hartman (2001) discuss the options of exit, voice and loyalty, that employees can choose when unethical behavior is discovered in their organization. In the final section of Chapter I Tom Morris (1997) and Richard Nielsen (1996) present elements that are necessary to create and maintain an ethical organization.

It is important for organizations to know how organizational culture can influence employee behavior and what type of culture any given organization is supporting. If organizations are promoting an environment that supports ethical decision-making, they are more likely to have an ethical environment. If they are promoting behaviors like self-deception and self-betrayal, they are more likely to have an unethical environment. When organizations are aware of what behaviors they support that lead to unethical/illegal actions by their employees, then organizations can assess their environments and make needed changes to support ethical environments.

Chapter II, the Federal Sentencing Guidelines, will begin with reviewing court decisions dating back to the Civil War that have impacted the current United States laws regarding unethical/illegal behavior in organizations. The Federal Sentencing Guidelines for Organizations of 1991 will be discussed along with their mandate for organizations to implement ethics/compliance programs. The Federal Ad Hoc Advisory Committee’s review of the Guidelines (2003) after more than ten years of being in practice and their recommendations will also be reviewed. Arguments will be made to demonstrate that the Guidelines themselves have shortcomings: specifically that they do not address the importance of employee involvement and consistent leadership, and because of these oversights organizations need to look beyond the Guidelines in order to successfully

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implement ethics/compliance programs. The Guidelines also fall short in the ability to ensure that organizations are properly implementing and following their organizational ethics/compliance programs. The Guidelines only have influence when an organization has been sanctioned for illegal behavior, and according to Judge Diana Murphy less then one percent of organizations are sued and sanctioned each year under the Guidelines (Murphy 2002). With the USSC being unable to enforce effective implementation of ethics/compliance programs, employees are in need of additional support systems so they can be safe in reporting illegal behavior (Walton, Fall 2000).

Chapter III, Effective Ethics Programs, will discuss in detail the characteristics that are necessary for an organization to possess in order to successfully implement and maintain an ethics/compliance program. It will specifically focus on employee input and consistent leadership, as these are two vital components that were omitted from the Guidelines. This Chapter will review several case studies to demonstrate that organizations have experienced success in implementing ethics/compliance program measures. Arguments regarding the problems organizations encounter when they only give “lip service” (state they support but actions are contrary) to their ethics/compliance programs will be presented, as will the concerns that are raised when an organization’s focus is on profits only. Knowing the importance of the role of consistent leadership and employee involvement in organizational change can assist organizations in finding methods of ethics/compliance program implementation that utilize these two components, in addition to what the Guidelines recommend.

Chapter IV, Learning Organizations, will argue further that employee involvement is vital to successful implementation of any major organizational change and specifically
those that include cultural changes. The learning organization is one method that can utilize employee input, leadership example and the requirements of the Guidelines. This chapter will present the learning organization according to Peter Senge et al., which promotes an environment that encourages open communication, employee involvement at all levels, systems thinking (looking at the organization as a whole), personal mastery (continuously expanding knowledge), shared vision (sharing and working toward the same goals), dialogue (specific types of communication with feedback) (Nielsen, 1996), and perceptions (how people perceive their surroundings), and demonstrate how awareness of the functions of others in the organizations can impact decision-making (Senge et al., 1994). It will also review Richard Nielsen’s arguments on different types of feedback “loops” to promote dialogue or communication in organizations. These types of dialogue can support change or make change difficult in organizations (1996). This chapter will also present a critique of learning organizations by Will Rifkin and Liz Fulop, who believe that learning organizations try to control their members and silence the different voices in the organization. Counter arguments that support the learning organization model will be made (1997).

Chapter V will review the arguments put forth by the four former chapters. It will make conclusions regarding the shortcomings of the Guidelines and the need for additional support systems for employees who do report unethical/illegal behavior in an unethical environment. This Chapter will argue that these additional support systems through employee involvement will protect those employees who choose to report unethical behavior from intimidation and retaliation. These support systems would need to be present at the local, state and federal level (Walton, Fall 2000). In addition to
support systems for employees, more deterrents would exist to influence organizations to become more ethical. A report each year on organizations and their behavior throughout each year would be compiled and accessible to the public. This report would be similar to the *Consumer Reports* magazine that asks for consumer feedback in ranking quality of appliances, cars, etc. each year and the *Forbes* and *Fortune* magazines which reviews organization’s performances and give them rankings each year. This report would go more in depth than the formerly mentioned reports by requiring organizations to self-report any legal sanctions each year and how their organization fared, with reports being available to the public. Individual organizations’ efforts to encourage ethical behavior, and proof of those efforts, would be included in the report. Anonymous surveys would be completed by stakeholders (including employees and customers) regarding satisfaction and/or ethical issues with their organizations. The information would be available free to everyone via Internet and other reports. It is believed that if organizations’ illegal/unethical behavior is in the public domain as well as what they are doing well, employees will be able to choose those organizations that are ranked higher, giving ethical organizations the best to employees to choose from. If unethical organizations want to attract the better employees then they will have to change their business practices to be more ethical. Chapter V will also argue that in order to accomplish effective reporting and an ethical organization there must be employee involvement in organizations and that employee involvement will be able to work as a check and balance system to keep an organization ethical. Concluding arguments will be made on the importance of organizations as a whole becoming more ethical.
CHAPTER I

ORGANIZATIONAL ETHICS AND ORGANIZATIONAL CULTURE

Introduction

Chapter I will examine six concepts needed in order to understand what the emerging field of organizational ethics is and that its focal point is the moral culture of an organization. It is vital to know how organizations influence the behavior of their members. This influence can create ethical or unethical organizational environments. If organizations are aware of what characteristics their organization promotes, they can perform self-assessments to determine what type of organization they are promoting and make necessary changes to ensure they are supporting more ethical decision-making. If more organizations encourage ethical decision-making, there will be less illegal/unethical behavior and less unintended harm caused by our organizations.

The first section of this chapter, Organizational Ethics, will introduce what organizational ethics is: the study of ways organizations influence members’ behavior (Horvath, 1995). Organizational ethics also studies organizations and their culture and how this culture influences organizational behavior to be ethical or unethical.

The second section of this chapter, Organizational Culture, will look at organizational culture in more detail and demonstrate that organizational culture does in fact have a strong hold on how members of organizations act and what types of behavior these members participate in (Hartman, 1996). This section will introduce what
characteristics exist in ethical organizations and those types of characteristics that endorse unethical actions in organizations. It is very valuable to know what makes up an ethical organization as well as an unethical one as the leadership in organizations has the power to impact decision-making. If we know what characteristics impact organizational behavior, good and bad, we can look at our own organizations and determine what type of environment is being supported and then make changes to encourage environments that are more ethical. The difficulty in changing organizational culture when an organization participates in organizational decay or systematic ineffectiveness (Schwartz, 1990), ultimately leading to unethical environments, will also be discussed. This section and following sections and chapters throughout this thesis will use the examples of Enron and NASA, among others, to demonstrate the types of organizational cultures that can lead to illegal/unethical behavior.

The third section, Self-deception, presents the concept of self-deception or putting blame on others and relieving ourselves of responsibility (Covey, 2000). It is important to know that everyone is susceptible to participating in self-deception and that when we participate in self-deception we become blinded to the truth, which heavily impacts our decision-making ability in our organizations. If we do not acknowledge the truth when making decisions, we cannot make the best most ethical decision and instead make unethical choices.

The fourth section, Administrative Evil, builds on the concepts of organizational decay and self-deception and argues that both of these things can lead to unintended harmful consequences by unethical organizations—"administrative evil" as Adams and
Balfour label it (1998). Again, it is vital to know what types of behavior lead to "administrative evil" so organizations can make changes and create ethical environments.

The fifth section, Exit, Voice, Loyalty, discusses options members of organizations have when they find themselves in an unethical organization or facing unethical decisions. Hirschman's concepts of exit, voice and loyalty demonstrate these options and why some organizations do not change even when problems or unethical/illegal behavior is identified (1970; Hartman, 1996). When employees voice their opinion or speak up when they recognize problems and are not taken seriously and even treated poorly as a result, they may choose to exit the organization while the problems remain. Loyalty to an organization is influenced by the ability to use voice to make changes. Loyalty will decrease when those who attempt to use voice are shut down. It is important for leadership and employees to be aware of these concepts as they also play a part in determining whether an organization will be ethical. The expression of voice or employee involvement in organizations is imperative to maintaining ethical environments. Employee involvement will be discussed in more detail in Chapters III, IV, and V.

The final section, Ethical Culture, provides a comprehensive review of four basic principles, truth, beauty, goodness, and unity, which organizations must possess to develop and maintain an ethical environment (Morris, 1997). Organizations must have trust in order obtain all the knowledge needed to make ethical decisions. Truth can counter self-deception. Beauty impacts the aesthetic environment and how we feel or the atmosphere in our organizational environment. It is difficult to be positive and productive in an environment that lacks beauty and promotes negative relationships.
When we use *goodness*, we treat everyone with dignity and respect in our interactions with them, instead of as a means to an end. *Unity* creates a connection between thoughts, actions, beliefs and emotions. If our thoughts, actions, belief and emotions are not *unified*, we can experience inner turmoil. If organizations do not have *unity*, they will also experience inner turmoil, generally showing its face in poor communication and unethical choices (Morris, 1997; Nielsen, 1996).

**Organizational Ethics**

Over the past forty years, there has been growing concern over the way many organizations have chosen to do business. There does not seem to be much in the way of deterring many organizations from dabbling in illegal/unethical behavior as demonstrated by the recent fine to Microsoft. The European Courts fined Microsoft $613 million dollars, which is the largest fine it has ever issued, but the “fine amounts to less than an average week’s worth of sales for Redmond Wash.-based Microsoft” (*Las Vegas Review Journal*, March 25, 2004). With the many scandals that have drawn media attention to many organizations that have regularly participated in illegal/unethical behavior, the field of organizational ethics has developed as a professional and academic field to address these concerns.

Organizational ethics is “the study of ethical issues relevant to ways in which organizations influence their members and to the ways in which these members influence each other and the organization” (Horvath, 1995). Organizational ethics studies organizational culture or the customs and standards that are meant to guide behavior. It provides guidelines for organizations and professionals offering advice to organizations.
to successfully implement such standards (Horvath, 1995). These standards are often
derived from the core values of an agency such as honesty, respect and trust or on the
other side of the coin, obedience, loyalty and intimidation.

Workplace or business ethics can and do affect the behavior of employees,
employers and the broader society. The Ethical Edge, a website authored by Ethics
Consultant Kenneth Johnson, former UNLV graduate student, asserts that the challenge
for today's organization is to learn how to organize their members to work toward
common goals and contribute positively to the community around them and in turn create
more ethical behavior (Hartman, 1996; Johnson, 2001; Ambramov and Johnson, 2004).
If organizations can center their employees enough to work towards a common goal, they
will be more successful in accomplishing that goal. If employees are focusing on
different goals and various ways of doing things, they may have different outcomes than
the desired one. Just because employees are working toward the same end does not mean
they will always do this in an ethical manner. So, employees must be aware of what
makes an ethical or unethical choice.

Organizational ethics perceives an organization as a community or culture, focusing
on its strengths both past and present. It addresses the need for organizations to be run in
a manner that takes into account each member of the organization and how their
interactions affect one another as well as the business as a whole (Johnson, 2001; Senge,
organizational culture employed by the field of organizational ethics can teach an
organizations community members to strive to their fullest potential while making ethical
decisions. Systems thinking (Chapter IV) does just that, by creating awareness of how
our actions impact each other, we can see the whole and use this knowledge when making choices. When employees can see the whole organization and how it works (roles of different participants), then each member comes to the realization of the important role they play in their organization and how important their contribution is (Hanh, 1976). “At its essence every organization is a product of how its members think and interact” (Senge et al. 1994, 48).

The issues that organizational ethics raises are not new to society. Many philosophers over the years have addressed the concerns of appropriate behavior in a system or organization. Edwin Hartman explains that culture includes laws, rules and systems as well as language, history, formal and informal practices, beliefs and rituals. So organizational ethics works on the whole of the moral culture of the workplace. Hartman reinforces that, “corporate culture is the primary means of inducing any sort of behavior in an organization” (1996, 146) and “is a vehicle for imparting and maintaining the moral principles and the values that govern life in the organization” (1996, 150).

Organizational learning (discussed in Chapter IV) then is the “process within the organization by which knowledge about action-outcome relationships and the effect of the environment on these relationships is developed” (Malhotra, 1996). Aristotle states, we cannot change something unless we know how it works (Aristotle Politics 1998, 1301a19-1304a38) and Stephen Covey, top management thinker states, change is not possible unless we know there is a problem (2000, 7). So in order to influence change to a more ethical state, especially cultural change, one must understand corporate culture and the processes that are used to guide behavior in that culture.
Organizational ethics then is the study of ways organizations influence members behavior (Horvath, 1995). Organization ethics looks in depth at organizations and their culture and how this culture influences organizational behavior to be ethical or unethical. Knowing that “corporate culture is the primary means of inducing any sort of behavior in an organization” (Hartman 1996, 146), organizational ethics promotes methods of teaching organizations what they need to do to make their environments ethical and the necessary steps they must take to change or improve organizational culture.

Organizational Culture

With an awareness of organizational culture having such a strong impact on employee behavior, it is very important to know what the components are that make up ethical organizations. Once we know the components, plans can be made to implement them into organizational culture. The challenge comes though when organizations have been doing things a certain way for many years (culture) and they are now expected to change. Actually implementing successful changes and in turn changing organizational culture is very difficult, even for those companies that are relatively healthy.

Boyett and Boyett have written a book entitled The Guru Guide: The Best Ideas of the Top Management Thinkers, reviewing Stephen Covey, Peter Drucker, Warren Bennis and other top management thinkers. One of the top management thinkers they cite is Edgar Schein who recommends nine attributes that organizations must possess in order to create a learning environment and ethical organization. An organization must have: (1) leaders that balance the interests of all stakeholders; (2) leaders and managers that believe their people can and will learn; (3) leaders that model and value work and change; (4)
people in their organization that hold the shared belief that they have the capacity to change their environment; (5) time set aside for learning; (6) people in the organization that have a shared belief that economic, political and socio-cultural events are interconnected and have a shared commitment to learning; (7) managers and employees that have a commitment to open and extensive communication; (8) people in the organization that have the shared belief that trust, teamwork, coordination and cooperation are critical for success; and (9) lastly leaders who acknowledge their own vulnerabilities (Cited in Boyett and Boyett 1998/2004). So leadership example, shared beliefs, trust, open communication and cooperation are necessary in order to develop a learning environment or culture, this learning culture being necessary to maintain an ethical environment. These nine attributes and their importance will be discussed throughout this chapter and following chapters.

Attributes one, two, three, and nine all address the role of leadership in ensuring that organizational culture encourages learning. With four of nine attributes addressing leadership it would seem that their example and behavior would be very important in creating an ethical learning environment, which is necessary for change in an organization. The role of leadership will be discussed in more detail in Chapters II and III.

Attributes five, six, seven and eight address time for learning, understanding how different events in the community or organization impact each other, communication, trust, teamwork, and cooperation. Trust will be discussed in the last section of this chapter and the remaining attributes will be discussed in Chapter IV.
The fourth attribute discussed by the Boyett’s is probably one of the most challenging to achieve, that organizations need people in their organization that hold the shared belief that they have the capacity to change their environment. If employees in an organization do not believe that it is safe to promote or suggest change, specifically change to more ethical behavior, most will not attempt to do so. If employees either do not attempt to get involved or are intimidated when they do try to make changes, problems in the organization will remain and go unreported and employees will believe that they cannot change their environment, leading to feelings of helplessness and apathy towards work, making any type of change difficult.

In many organizations, reporting unethical behavior or being a “whistle blower” (sound the alarm from within the organization they work, bringing awareness to neglect or abuses that threaten public interest) in an attempt to change behavior to be more ethical is viewed as unsafe because there is a risk of being punished (demotion, firing, blackballing) and not being seen as a team player (Bok, Summer 1980, 2-7; James, 1984; Glazer, 1983). Whistle blowing is often used after other attempts to speak up and make changes have been put down. Because of the risks of whistle blowing, this often creates the expectation for employees to look the other way and ignore or allow the inappropriate behavior. An organization generally will not state that looking the other way is what is expected, but when someone who looks the other way and does not bother managers with problems is promoted over someone who reports those problems, the message is conveyed quite clearly. Gauthier states that social pressure can influence behavior to become better or worse as people depend on their “network of social relationships” in their organizations (cited in Hartman 1996, 70, 158).
The process of getting to the point of systematic ineffectiveness—organizational decay is one aspect that makes change very difficult. Symptoms of this organizational decay often involve commitment to bad decisions. When a poor decision is made, an organization can choose to acknowledge their failure and get back on track. But if they choose to deny the failure and defend the bad decision, to maintain an image, they begin to deceive themselves and their vision becomes clouded. Those in the organization that participate in this deceit may be seen as team players and those who do not are excluded and overlooked for promotions and may become unhappy and feel unsafe in their work environment (Schwartz 1990, 53-56). Thus, organizational decay can create an environment where no one has to take responsibility for his or her actions, as it is always someone else who is the problem. Those with the power in the organization can mold and manipulate those who are under their control merely by stating that this action is for the good of the organization (if employees question it they will not be seen as a team player) and will therefore benefit the community—even though in reality the action may be beneficial only to the top administrators and their stockholders (Hartman 1996, 146).

If we have organizations that do not promote or support reporting of problems or unethical behavior, change will be impaired; and employees will be convinced because of intimidation that they cannot change their environment. When organizations promote this type of behavior, they limit their ability to keep pace with the ever-evolving advances in technology and goods and services demanded by our society and to become more ethical. So, it seems beneficial to organizations to get input from employees and use their suggestions when making changes, first so they can address problems before they become disasters and second to have buy-in (believing in policies promoting and
following them) from their employees making the change process smoother. Employee input and buy-in will be discussed in more detail in Chapters III, IV and V.

The unethical socializing power of the culture within an organization can lead to illegal behavior and sometimes disaster (as noted earlier by the NASA and Enron examples). Even in light of a second space shuttle disaster, some of the leadership in NASA continued to participate in self-betrayal, as they continued to believe that there were no internal problems and those who were calling for radical change in NASA were off base. Space Shuttle Columbia accident investigators accuse NASA of “creating an environment in which engineers were too afraid to speak up about potential dangers and managers were too caught up with flight schedules” (Las Vegas Review Journal, Dunn, October 12, 2003; Colombia Accident Investigation Board Report Volume 1, August 2003).

It is often difficult to do something and do it a different way when you have been doing it one way for many years, whether you are in leadership or an employee. Peter Smith proposes in A Necessary Condition for a Learning Culture that continual upgrading of the knowledge base of the organization and fostering a climate of learning is necessary for continued organizational progress (1999, 217-224). Ingredients that are critical to success when trying to change are renewing management mindsets to keep them from hardening and changing activities and tools. With these new tools, one can change habits of thinking and learning (Boyett and Boyett, 1998/2004). So, if a culture is to be one that promotes change, there must be continual learning and development of new skills.
It is important to know the strong hold organizational culture can have on impacting employee behavior, good or bad. If we are aware of the characteristics of our own organizational culture, we can then determine if they promote ethical or unethical behavior. We must also consider the challenge of changing culture and some of the conditions that may be present in organizations that inhibit change and support organizational decay (Schwartz, 1990). We can begin by using the nine attributes presented by Schein to assist organizations in promoting change through organizational learning (cited in Boyett and Boyett, 1998/2004). Creating open learning environments will assist in promoting ethical behavior (Chapter IV). The next section will explain in more detail how organizations can get to the point of organizational decay, leading to unethical behavior and if gone unchecked, illegal conduct and disaster.

Self-deception

Covey argues that most of us can and do fall into the trap of self-deception in our lives. We participate in self-deception when we disregard impulses to act in a way that we know to be a good choice and that will benefit others and ourselves. When we do not act in the way we should, we justify our behavior so we feel better about our decision, making it the right decision. If we believe our decision to not act or take the wrong action is correct, then the other person who attempts to hold us accountable for our behavior is wrong. If we believe that the person questioning our behavior is wrong, even when they are right, we become blinded to the truth and we are participating in self-deception. Self-deception not only blinds us to the true cause of problems but blinds us to solutions as well (2000, vii-viii). This can in turn make us more susceptible to
participate unknowingly or knowingly in unethical behavior. When our perception of reality becomes distorted and we cannot see that there is a problem (let alone the problem being ours), we resist any suggestion of the truth (Covey 2000, 14-16). As a result, “Our identity shifts from who we are to who others permit us to be” (Schwartz 1990, 31-34). If an organization tries to address and change a culture that is unethical participates in self-deception and denies the truth, there will be much resistance, as the members may not believe they are contributing to the problem (if they even acknowledge there is one). So-and-so is a bad leader and makes poor decisions, not us. They are to blame for our problems.

When self-deception is rampant in an organization, it is especially difficult to find who is responsible, as many people in different departments are unclear of or deny their roles and responsibilities and are not aware of how they impact others in the organization. It makes it even more challenging to identify responsible parties when decisions were made by someone acting as a representative for another or as an “artificial person” (as Elizabeth Wolgast labels this [1992, 1]). Self-deception is something that was present in the NASA culture.

After the Space Shuttle Challenger exploded in 1986, senior NASA officials determined that the agency needed to instill a new culture in which lower level managers and engineers felt more free to communicate bad news to key decision makers (while the higher level managers still believed their culture already provided this opportunity). The managers could not see that this view put responsibility for change on lower managers, relieving themselves (upper managers) as part of the ethical problem (Schwartz 1990, 102-103). One can try to change the environment around oneself, but unless the
managers at all levels acknowledged that they might have contributed (attribute nine, Boyett and Boyett 1998/2004), the problems would remain in spite of efforts for new programs to increase communication and reporting of problems. As we can see by the most recent tragedy of the Space Shuttle Columbia, many of the senior managers were unable to see that they were part of the problem, which may have contributed to the lack of cultural change at NASA and the most recent space shuttle disaster (Schwartz 1990, 102-103).

Another example of self-deception could be a union that is trying to unionize an organization. A national union approaches a company with the intention of becoming its employees' representative, under the guise that the employees came to them. The company and the union come to an agreement on terms of behavior for both parties. The union representatives give a presentation stating that they will honor their agreement when in reality there have already been many violations by the union recruiters. They continuously go into areas of the company that are off limits, and they continue to solicit employees after employees have requested being taken off their contact list as well as manipulate factual evidence regarding the company. They do all this because they believe that their cause, bringing better benefits to the employees of the company they solicit (not to mention their own financial gain), justifies not following the agreement made with the company. After all, there is little consequence to their violating the agreement, they might think. It seems, though, that if they are willing to violate agreements to get a company to unionize, they may very well violate agreements after the union is in operation (of course for the good of the greater cause). So, they deceive themselves by this reasoning that it is ok to misrepresent oneself if one believes they will
be helping in the long run. In this case, the union would not be beneficial, but instead destructive to morale in the company, creating dissatisfaction and dissention when the union misrepresents itself in the future. Self-deception can show its face in many ways and is especially challenging to overcome in an unethical environment when making major organizational changes.

If an organization attempts to implement an ethics program to increase ethical behavior or make other changes in a corrupt environment, they not only have to be relentless in their follow-through and communication, but they have to literally change the culture of the organization which includes laws, rules and systems as well as language, history, formal and informal practices, beliefs and rituals (Hartman 1996, 146), and many times must replace actual members of the organization. This is an incredible task, needing buy-in from all the leadership at all levels in the organization. If two leaders in the organization do not buy into change, their department will still be unethical, invariably affecting the other departments. So, we can begin to see how some organizations that have implemented ethics programs in efforts to comply with the Guidelines may not have been able to successfully make changes in the dominant organizational culture. Change in culture is necessary to create an ethical environment.

It is important to know that everyone is susceptible to participating in self-deception and that when we participate in self-deception we become blinded to the truth, which heavily impacts our decision-making ability in our organizations. If we do not acknowledge the truth when making decisions, we cannot make the best most ethical decision and instead make unethical choices, sometimes not even being aware that we are. Organizations that participate in self-deception are very difficult to change, as many
times they do not even acknowledge there is a problem that may need to be fixed. In addition to the challenge of self-deception, organizational leaders can mask illegal/unethical conduct making, it seem appropriate to employees.

Administrative Evil

*Unmasking Administrative Evil*, a book by Guy Adams and Danny Balfour, looks more in depth at unethical behavior (or “evil” behavior as the authors label it) (1986, Introduction). According to Adams and Balfour, unethical/evil behavior is hidden or masked in our organizations, so we often have difficulty pinpointing or locating the source of it. We may even be involved in perpetuating unethical behavior without being aware of it as we follow the directions of our superiors, solely to be obedient or because that is the way we have always done things (Adams & Balfour 1998, 16).

Covey and Schwartz argue that this can occur when we participate in self-betrayal or an act contrary to what we feel we should do. As discussed in the last section, this is something many of us do on a consistent basis, often to please others or to gain their approval. We may have a thought that we should assist someone or do something a certain way, but for whatever reason we did not do it. When we disregard the thought or impression to act or not act, we often feel that we must justify our behavior for not acting and begin to blame others for our lack of follow-through. When we do this, our view of reality becomes distorted and we do not see the situation as it really is (Covey 2000, 64-71, 75; Schwartz, 1990).

When situations are presented to us by our managers that give the appearance of a good thing, but in reality may not be, “moral inversion” (which masks the reality of
negative consequences of the outcomes our behavior will have) occurs (Adams & Balfour 1998, xx). The danger of the situation, once it is masked, can create conditions that prevent us from seeing anything wrong, so we do not even question what we are asked to do and ethics does not have a place as there is seemingly no choice to be made (Adams 1998, xxiii). Again, NASA is an example of this masking or deception.

At NASA the issue of foam being knocked off shuttles and creating damage was well known as a problem with past launches, but was minimized and never given the proper attention and eventually was not considered a safety risk. Many people passed the buck on the foam problem and no one ever took full responsibility (Washington Post, Hilzenrath, March 1, 2003). These individuals who passed the buck were involved in self-betrayal. They justified their behavior, believing it was not their responsibility, and assumed that someone else would handle it (Covey 2000, 64-71). As an unintended result of ignoring and minimizing the foam problem seven lives and the shuttle worth millions of dollars were lost (Washington Post, Hilzenrath, March 1, 2003). Many members of NASA contributed to this disaster and Adams and Balfour would describe this situation as administrative evil. No one had the intent to do evil or harm another person. But because of lack of follow-through and minimization of problems, and the ideal that NASA was perfect, there were a series of several unethical choices made by many employees (discussed in Chapter II) (Schwartz 1990, 73-89), and the ultimate outcome was “administrative evil” (Adams & Balfour 1998, 16). What is so incredible about this disaster is that several years earlier NASA lost seven astronauts including a teacher and the space shuttle Challenger in a similar oversight involving o-rings. How could an organization, after having such a tremendous tragedy occur, not make the
necessary changes in their culture and go to any extent to make sure their astronauts were safe and that any safety concerns were taken seriously and researched, with appropriate action taken to rectify them? Is organizational culture and self-deception that strong, that they were unable to root out the "administrative evil"? And, why do we as a society allow this from our organizations (Covey 2000; Hartman 1996; Adams and Balfour, 1998)?

In our organizations, we may be asked to do things that we are uncomfortable with. We often have a desire to obey or please the authority figure and may even rationalize, taking small steps or doing something questionable just once. But the expectation is there from the authority figure, that if we will do it once, we will do it again. Now if there are several people in the organization that agree to do something a little questionable, but for a good end result, and eventually participate in more and more questionable activity for the good of the company, you have created an unethical organizational environment. It is almost impossible to stop participating in the behavior as the organizational leaders now have evidence that you did it once or several times and have leverage over you if you attempt to stop the behavior (Adams and Balfour 1998, 3-8). So, we can then begin to participate in unethical behavior, leading to unethical decisions to support our behavior. We often rationalize and justify our behavior, eventually believing that we are right. The only thing stopping the cycle of deception is the truth (Morris, 1997), which we are blinded to, the consequences of acknowledging the truth being very severe.

This appears to be what occurred in Enron's organizational culture. Members were modeled the behavior of fudging the numbers a little to make the sale or deal. Soon
many employees began doing this and Enron lost control of accurate numbers of their funds and filed bankruptcy (University of Ohio, *Business Ethics Misconduct With Focus on Arthur Anderson Enron Case*, 2002). Unethical behavior/administrative evil “can be difficult to see, but also has a presence that is subject to varying interpretations and conclusions. These dynamics represent a typical organizational pathway that can lead” to an unethical organizational culture when no one intends this (Adams and Balfour 1998, 108). These dynamics can include a series of unethical decisions, which often leads to desensitization and illegal/unethical decisions. As stated earlier by Hartman, “corporate culture is the primary means of inducing any sort of behavior in an organization” (Hartman 1996, 146).

We may think that no one could put that kind of pressure on us, to make us commit unethical or illegal acts or not speak up when others were in danger. But there are many examples throughout history of people who follow their leaders without question or sometimes just for mere survival or to keep a job, and they eventually become participants in this behavior.

Organizational decay and self-deception can lead to unintended harmful consequences through unethical choices in organizations. It is very important to know what types of behavior lead to “administrative evil” so organizations can make changes and create environments that prevent illegal/unethical conduct. Taking action to make changes and improve ones environment can be difficult and dangerous in an unethical environment. Because of the risk of reporting in an unethical environment, additional support systems are needed to protect those who do report (Walton Fall 2000). There are some options we can choose when we discover or acknowledge that “administrative evil”
exists in our organization (Adams and Balfour, 1998). The next section will review the options and the outcomes of choosing them.

Exit, Voice, Loyalty

As members of organizations, we are able to choose what we will do when we become aware of "administrative evil" in our organizations (Adams & Balfour 1998), keeping in mind that our actions may be strongly influenced by the type of organization we belong to. When we notice unethical behavior over a period we can choose to ignore it, report it or speak up (voice), or when things get uncomfortable enough we can choose to leave the organization (exit). When there are several other options for employment the tendency may be to leave rather than expend the energy to correct the situation. On the other hand, if we do not have many choices of other employment or there are stiff penalties for leaving we may choose to voice our concerns in hopes of making internal changes (Hirschman 1970, 24, 30; Hartman 1996, 169-177). If there is a possibility that voice may be effective in getting the organization back on track, then this may be chosen over exit (Hirschman 1970, 37-38). "Once voice is recognized as a mechanism with considerable usefulness for maintaining performance, institutions can be designed in such a way that the cost of the individual and collective action would be decreased" (Hirschman 1970, 42).

"Voice is essentially an art constantly evolving in new directions" (Hirschman 1970, 43). Often though for a member, "the cost of devoting even a modicum of his time to correcting the faults of any one of the entities he is involved with is likely to exceed his estimate of the expected benefits for a large number of them" (Hirschman 1970, 40).
Because of this and the option of exit, voice will often be underdeveloped and the organization may not be able to identify what the sources of their organizational problems are because those that were aware of them and willing to speak up have left the organization, thus hindering change (Hirschman 1970, 43). Why voice your opinion when the organization does not support this and there is a choice to leave when things get bad (Hirschman 1970, 108). Choosing to voice a concern can also be a risk in some organizations, if this type of action is punished or looked down on. Hirschman argues that in order to have the most success in keeping an organization on track both exit and voice must exist (1970, 54; Hartman 1996, 169-177). So, employees must be able to express concerns and the organization must listen and utilize their suggestions when possible to keep valuable employees in their organization. Leadership is more likely to listen to concerns being expressed if a good employee has the option to leave if the ethical issues they report are not addressed.

Hirschman adds a third factor that can influence exit and voice. This is loyalty or commitment to an organization. He states that a member of an organization who has more influence is likely to exercise the voice option especially when they have a large investment in organizational outcomes. Loyalty seems to encourage speaking up about a situation and putting exit aside. With the influence of loyalty, a member of an organization may stay longer hoping for improvements (Hirschman 1970, 77-79; Hartman 1996, 169-177).

"While loyalty postpones exit its very existence is predicated on the possibility of exit". Voice and loyalty are strengthened by the threat of exit as long as exit is not made too easy (Hirschman 1970, 82-83). At some point, a loyal member of an organization
may attempt to correct problems that are occurring and may become more insistent as the problems grow. The *loyal* member may consider *exit* because of being ineffective in trying to make changes. Many times though because of *loyalty* and personal investment of time and energy they will stay with the company even though changes have not been made, but may be very unhappy with the way things are being managed (Hirschman 1970, 88-89; Hartman 1996, 169-177). When you are in a position of power and you have others backing you *exit* can be easier, but when you are not *exit* can be more difficult.

Some organizations can make *exit* very difficult, as they are difficult to enter and expect certain behavior, once one becomes a member. These organizations can also make speaking up very difficult, as the expected behavior is compliance and not questioning and trying to make changes or improvements (Nielsen, 1996). When members of the organization have made great effort, first to become a member and second to work hard to please management with their performance, they have made a large investment in their organization. If they have a large investment, they may want to work toward making their organization better or more ethical. If management does not support this and passively punishes *voicing* opinions, then one’s view of *loyalty* can begin to change. One can either say, this is not acceptable and *voice* their opinions, attempt to *exit* with many consequences (unemployment, demotions, black balling), or one may participate in self-deceptive behaviors. Self-deception allows one to rationalize behaviors, suppress awareness and even participate to some degree in the unethical behavior (Hirschman 1970, 92-94). The decision to *exit* an organization becomes more difficult the longer one stays with the organization as they are more connected to the
outcomes of the organization. Members of the organization may also feel that if they stay they can prevent the worst from happening (Hirschman 1970, 103).

Schwartz uses General Motors as an example of an organization that has been affected by self-deception (putting blame and responsibility on others) and organizational decay (defending poor decisions). In the 1950's, General Motors produced a vehicle called the Corvair. It was powered by a rear engine and had an independent, swing axle suspension system. It was well known and documented by the General Motors engineers that this type of system was going to have serious problems. The safety of the vehicle did cause a rift between General Motor's top-flight engineers and Ed Cole, Chevrolet General Manager. One engineer reported presenting the test results to Cole, but that he had already made his decision to produce and sell the car. In addition, he also told dissenters that they could either join the team or find employment somewhere else. A couple of years after the Corvair went on the market General Motors began to be inundated with lawsuits. In 1961, new General Manager Bunkie Knudsen insisted that he be able to fix the problems with the Corvair by adding a $15 stabilizer bar. His request was refused as being too costly. Finally, in 1964, Knudsen threatened to resign and permission was given to add the stabilizer bar. But the car had already been on the market for 5 years. General Motors had spent many years in many lawsuits and millions of dollars in settlements and legal expenses for those injured or killed in the Corvair. The corporation continued to defend the safety of the car, even though their own internal records showed it was not safe. It was not until the General Manager threatened to exit that the company made the change. Even though this decision was made, General Motors
was still in denial that there was a problem at all (Schwartz 1990, 53-72). So their culture did not change.

We can see the role of exit (General Manager threatening to leave) as well as self-deception (denial that there was a problem with the Corvair) in this example. Voice also had a role. When the engineers voiced concerns they we shut down. Initially when the General Manager attempted to correct problems with the Corvair he was also refused. Finally, five years after the cars release and many lawsuits, the General Manager threatened to leave (exit) and the change to make the car safe was made. But this small success, to make the car safer, did not change the ethical culture of the organization. It only fixed one situation.

Even though we have options to act in our organizations when we identify inappropriate behavior, most of us cannot put our jobs on the line and be a “moral hero” as this General Manager did, in order to stand up for what is ethical (Walton, Fall 2000). Therefore, we must create environments that are more ethical and provide support systems for those who do choose to voice their concerns to make organizations more ethical. Creating support systems for those who report unethical behavior will be discussed in more detail in Chapter V.

So how does one create an ethical culture or prevent an organization from becoming unethical, forcing many employees to leave, or stay and be unhappy in their employment? Covey argues that reducing individual and organizational deception is the key (2000, 16). The next section will review four key elements or building blocks that are needed to reduce self-deception in organizations and promote ethical environments.
Ethical Culture

In order reduce and prevent illegal/unethical behavior in organizations there must be awareness of what behaviors cause these types of environments. Once we know what is causing this behavior, efforts can be made to change organizational behavior to become more ethical. In order to make these changes one must know what it takes to create and maintain an ethical environment and understand the challenge of changing culture (Nielsen, 1996). Nielsen’s views will be discussed in Chapter IV. There are many authors cited throughout this thesis that refer to behaviors or characteristics that make up ethical organizational cultures. Tom Morris brings the four most basic keys together that are required for organizations to have an ethical foundation. Morris, a professor of philosophy for 15 years at Notre Dame is currently employed as a motivational speaker (1997). Tom Morris believes that four fundamentals must exist in organizational culture to prevent self-deception and for an ethical culture to exist and survive. These are truth, beauty, and goodness all working in tandem to create unity. Morris believes that the work environment must have and build relationships of trust where there is respect for the intrinsic value of each person (1997, 27-28). We must be able to trust others to follow-through with their responsibilities. If they do not follow-through we may have to carry additional burdens or it may appear that we are not doing our part, as what we do is dependent on others’ performances.

Tom Morris quotes Aristotle’s views on truth: “To say of what is that it is not, or of what is not that it is so, is false: while to say of what is so that it is so, and of what is not so that it is not so, is true” (1997, 2). “Truth is the foundation for trust, and nothing is more important for any business endeavor than trust. Trust is an absolute necessity for
truly effective interpersonal activity” (Morris 1997, 10). Morris goes on to say that in addition to business relationships, organizations need to be truthful with their employees as this is the only way to build a relationship of trust and respect (1997, 27). “Lying makes it impossible to derive any benefit from conversation” (Kant, 1963). If employees cannot trust their employers, they are more likely to refrain from reporting unethical behavior, problems with equipment that may delay production or incur costs, or share ideas for improvements and more efficiency. In other words, they may withhold vital information that will impact decisions that are made without all the necessary information to make the best choice (Morris 1997, 46; Solomon, 1992; Gebler, May 2001). So, if we are spending our time guarding ourselves because we feel unsafe and withholding information that others may need, we are not working at our best and are preventing others from doing so as well. So, without trust organizations encounter the task of making critical decisions without all the information. When organizations do not have or acknowledge what is needed to make good decisions they will make poor choices, many times leading to unethical or illegal behavior.

When you trust those you work with, you can then have open communication, utilize all available skills and collaborate, providing an environment that can cope with changes (Morris 1997, 61-65). If everyone in an organization learns to tell the truth and face it, sharing it with others will be easier and problem solving will be quicker because of having all the necessary information (Morris 1997, 46). If organizations have all the information, they can make the best most ethical choice.

To illustrate: in all organizations, we have others that represent us or speak for us at times. Elizabeth Wolgast calls this the “artificial person” because we speak and act for

26
someone else and can commit and obligate him or her (Wolgast 1992, 1). The manager is often responsible for his agent’s actions whether they are right or wrong and whether or not the manager actually instructed them to perform a specific task. In these types of situations, where we represent another person or entity, trust is vital for an organization to function successfully. If the representative or agent does not present accurate information this can damage business relationships. The manager is then not able to rely on them and the lack of trust breaks down relationships in the organization (Wolgast 1992, 10-11).

In order for trust to exist in an organization, there must also be a retribution-free environment. Truth must be encouraged and openly rewarded and employees must believe that they can report wrongdoing and not receive consequences or be treated poorly. One of the greatest hurdles in creating this type of environment would be convincing employees that it is now safe to report unethical behavior without retaliation or punishment when this has not always been the case. Tom Morris states that it is almost impossible to repair bridges that have been burned due to lies and inconsistent actions (1997, 43). If our relationships are this damaged from deceit, changing to a trusting culture will be very difficult. So, we can see the value of truth in organizational life.

Beauty is the second fundamental for an ethical culture and at first glance, may be seen as a “perk” or an extra to an employment environment. But Morris argues that beauty is essential and cannot exist when we depart from the truth (1997, 71). The beauty of business is “the art of creating, maintaining and refining structures of relationships and activities in which human beings can grow, prosper, and live life to the
fullest”. “Beauty liberates” (Morris 1997, 100). According to Morris, “too many people in America, and around the world for that matter, live and work in conditions of unnecessary ugliness”. This ugliness can exist in the aesthetic or social sense of an environment. “This ugliness is a damper to the human spirit, a drain on available personal energy, and a threat to motivation and creativity. People cannot do all that they are capable of doing … if they are being dragged down by a significant aesthetic deficit in their environment” (Morris 1997, 70-71). Case studies will also be presented in latter chapters illustrating what organizations that have beauty look like (Gardiner and Whiting, 1997; Gebler, May 2001).

Imagine an office environment where workers are overloaded and new responsibilities are regularly added. A supervisor periodically targets her workers by questioning them as if they were intentionally being deceitful and is demeaning toward them. Decisions that are routine become difficult as employees are continuously questioned as if they are doing something wrong. The better you are at your job the more work you are assigned. Those that are not as efficient are given lighter workloads. At staff meetings the office manager has on more than one occasion, when concerns or problems are expressed, told employees if they do not like it there, they could leave (implying that no effort will be made to make needed changes). The feeling of many of the workers becomes hopeless. The work environment is unsupportive, very negative and lacks beauty.

But why do people need to be all they can be or have beauty, especially when they are working in a factory, fast food place, or cleaning buildings? What does it matter if their work environment is aesthetically pleasing or if they have a positive social
environment? Do they have ethical decisions to make? Of course they do and it does make a difference. If they are treated with respect and trusted and valued in their workplace, this could affect their work ethic. They may put more effort into their employment affecting accuracy, quality and customer service. If buildings, especially health care facilities, are not kept very clean this can contribute to disease and sanctions for an organization. If food is properly prepared food poisoning risk is reduced. If factory workers are efficient, there is better quality in their product and there is more pride in their work and personal satisfaction. These workers are in the trenches actually doing the work; they often see problems that may arise and can recognize more efficient ways of accomplishing tasks. So, respecting all employees at all levels and providing a positive environment seems to be a moral obligation for organizations, which will ultimately benefit the organization.

“People will not feel fulfilled in what they do, and will not be experiencing that measure of personal happiness they are capable of attaining on the job unless they are feeling that the aesthetic dimension of their experience is being respected and nurtured by the people around them and by the conditions of their work”, no matter what type of work (Morris 1997, 110). Covey argues “that we need to honor them as people…the moment we see another as a person with needs, hopes and worries as real and legitimate as my own,” we begin to see things as they really are and can start to build a relationships of trust and respect (Covey 144, 165-166). Unappreciated people feel little or no sense of loyalty or camaraderie toward those who are belittling them and very little responsibility (Morris 1997, 188).
Goodness is the third fundamental that Morris discusses. He states that goodness is a necessary condition for healthy relationships and for a thriving community (1997, 117). Treating employees with respect and kindness or goodness and not merely as a means to an end shows them that they are valued (Morris 1997, 122; Gardiner and Whiting, 1997; Gebler, May 2001). If those you associate with use goodness in their dealings, the pressure may be on for others to do the same. Goodness promotes an environment of opportunity to voice opinions and give input, to improve the organization and encourage ethical behavior (Hirschman 1970, 30-43). It is very difficult to go against the majority good or bad (Morris 1997, 137). If the majority of the organization is good/ethical then they can influence others to be ethical also.

Now, if there is a lack of goodness in a transaction does it really matter? How will it affect future opportunities, employee morale and those you do business with? What impact will it have on close relationships and how will this impact what becomes of the organization because of this behavior (Morris 1997, 133)? Will customers and employees stay loyal to an organization that lacks goodness and respect for others’ needs? If one stays loyal to management of organizations that lacks goodness, then they are seen as supporting unethical behavior and as untrustworthy. If on the other hand they choose to voice their views that are contrary to the unethical behavior, they may be “black balled” by the management. They can continue in an uncomfortable work environment or choose to exit the organization (Hirschman 1970, 21-54). It is possible that if a new or existing company comes along and offers goodness in their organization, that clients and employees will try them in hopes of better treatment. Exiting the organization becomes an option, as there is no hope that their voice will be heard to
renew the *goodness* in their organization (Hirschman 1970, 22-23; Hartman, 1996). Others will not *trust* to make referrals to someone who does not treat people with *goodness*, and this results in loss of business and respect from peers. “Unethical practices are always self-destructive over the long run, on both a personal and an organizational level” (Morris 1997, 152). We need to be “focusing our thoughts on the dignity of what we do when we are at our best, and we need to help those who work with us to do the same thing” (Morris 1997, 168).

The fourth universal dimension Morris presents is spiritual *unity*. “Our spiritual needs must be met in the work we do. Work can be satisfying and meaningful only if it contributes to meeting our most basic spiritual needs” (Morris 1997, 173). *Unity* creates the link among our thoughts, actions, beliefs, and emotions on the individual and organizational level. Many companies function in a disconnected state instead of a *unified* one. This occurs when each department has specified tasks and is not aware of other departments and what they do and how they can impact other areas of their organization. There is less accountability when organizations are disconnected because that responsibility is someone else’s and not mine. If organizations can *unify* themselves and have well defined responsibilities, they can reduce fragmentation and increase accountability to employees in their organization. If they can reduce fragmentation and increase accountability, they will be able to determine what the source of the problem is and then address it and fix it. If organizations *unify* themselves, they can find the reasons for problems in their organizations and make changes accordingly (Gardiner and Whiting, 1997; Senge et al., 1994; Trevino et al.1999, 131-150; Smith 1999, 217-224).
The most powerful motivator of people in any workplace is their sense, continually reinforced by the messages they receive and the treatment they encounter, that working well together or being unified will secure and further those things they most deeply love and value. Things such as security for their families, prosperity for their communities, a sense of positive self-esteem, and an experience of meaning and pride in how they spend their days. If we love what we do, we are more likely to do it well (Morris 1997, 198). Alan Ryan states, “we do not go to work only to earn an income, but to find meaning in our lives. What we do is a large part of what we are” (cited in Morris, 1997).

In order to begin to establish an ethical environment, organizations need to build on the four basic principles of truth, beauty, goodness and unity. Organizations must have trust in order obtain all the knowledge needed to make ethical decisions. Beauty impacts the atmosphere or positive and negative feelings in our organizational environment. When we use goodness, we treat everyone with dignity and respect in our interactions with them. If organizations do not have unity, the organization will experience inner turmoil, showing its face in unethical choices.

Conclusion

In this chapter, we have established that organizational ethics is “the study of ethical issues relevant to ways in which organizations influence their members and to the ways in which these members influence each other and the organization” (Horvath, 1995). Organizational ethics studies those standards that are meant to guide behavior, and provides guidelines for professionals offering advice to organizations in implementing such standards (Horvath, 1995). Edwin Hartman explains further that
culture includes laws, rules and systems as well as language, history, formal and informal practices, beliefs and rituals (1996, 146). So organizational ethics works on the moral culture of the workplace.

Corrupt moral cultures or communities usually begin to develop with self-deception (problem, then denial that there is a problem) (Covey 2000, 14-16), and self-betrayal (acting contrary to one’s feelings or instincts), which eventually leads to destructive behavior in an organization (Covey 2000, 64-71, 75). When self-betrayal and self-deception occur regularly in an organization then organizational decay or systematic ineffectiveness begins to set in (Schwartz 1990, 53-56). The examples of General Motors, NASA and Enron illustrate what can happen when cultures are impacted by organizational decay and self-deception.

According to Adams and Balfour, the challenge of detecting problems in an organization is very difficult, as they are often masked through wide distribution and fragmentation of services of the different areas that have responsibility. Many employees may not realize they are contributing to unethical behavior as they are just doing things the way they have always been done (Adams and Balfour, 1998, 16).

When we do become aware of unethical behavior, we can choose how we react. Hirschman describes some choices we have. We can participate in the behavior, exit or choose to leave, or use voice to attempt to change things by discussing concerns. We may try to use voice because we may feel loyal to an organization and would like to see things improved (Hirschman 1970, 24, 30).

Improvements or changes can be difficult in many organizations. So Morris provides four basic standards that must exist in order for an organization to be healthy
and ethical: truth, beauty, goodness and unity. When you trust those you work with, you can then have open communication, utilize all available skills and collaborate, providing an environment that can cope with changes (Morris 1997, 61-65). If there is beauty or a positive atmosphere in the work environment people will feel safe and fulfilled in what they do (Morris 1997, 61-65, 110). Treating others with respect and kindness or goodness and not as a means to an end shows employees that they are valued by others and can contribute to building and strengthening healthy relationships (Morris 1997, 122). Unity creates the link among our thoughts, actions, beliefs, and emotions. When there is unity in an organization, processes run smoother and tasks are accomplished more efficiently.

"Corporate culture is the primary means of inducing any sort of behavior in an organization" (Hartman 1996, 146) and is "a vehicle for imparting and maintaining the moral principles and the values that govern life in the organization" (Hartman 1996, 150). If we promote self-deception and betrayal, we will have an unethical organization and if we promote trust, beauty, goodness and unity, we will have strong organizations with healthy relationships that value others, have honorable reputations and the ability to create ethical organizations.
CHAPTER II

FEDERAL SENTENCING GUIDELINES

Introduction

In November 1991, the United States Sentencing Commission (USSC) promulgated the Federal Sentencing Guidelines for Organizations (Guidelines). The Guidelines were designed to provide “fairness in meeting the purposes of sentencing by avoiding unwarranted disparity among offenders, and reflect, as practicable, advancement in the knowledge of human behavior as it relates to the criminal justice process” (USSC, 2002). These new sentencing guidelines were applicable to organizational defendants in criminal cases.

Through the Guidelines, the USSC mandated that organizations adopt ethics/compliance programs. Failure to do so would greatly increase financial penalties for violations of the law, while organizations that had ethics/compliance programs that were designed to detect and prevent violations of the law would be rewarded. One of the overriding outcomes the Federal Government hoped to achieve through the Guidelines was to change the way American companies were expected to conduct business, and they projected that organizations would become self-policing, thereby reducing unethical/illegal behavior in organizations (USSC, 2002). If the Guidelines could reduce unethical/illegal behavior in organizations, it would seem beneficial for organizations to
adopt them whole-heartedly. If they do not do this then organizations need to look beyond them for assistance in creating ethical organizations.

The first section of this chapter, Legal Decisions, will review past legal decisions, dating back to the Civil War, that have influenced federal sentencing and the impact these decisions have had on sanctions for organizations. Arguments will be presented to show that because of past leniency and inconsistency with court decisions, many organizations were not being held responsible for their illegal actions. It is important to know why the courts have the current practices they do and why they make certain decisions when dealing with organizational behavior. If we know why the courts make certain choices in rulings, we can better understand why their rulings have not been deterring organizations from participating in illegal/unethical behavior.

Because of the inconsistencies with rulings and the increase of illegal behavior among organizations, the Guidelines were promulgated to act as a deterrent for illegal behavior. The second section will review the Guidelines and the mandate to implement ethics/compliance programs. The seven requirements presented by the USSC for satisfactory implementation of ethics/compliance programs will also be discussed. It is valuable to know what the Guidelines’ requirements are in order to evaluate whether they will allow us to successfully implement ethics/compliance programs.

Section three, Post Guidelines Court Decisions, will assess court decisions since the promulgation of the Guidelines and the impact they have had. This review will allow us to see if the post Guidelines court decisions have had the intended effect, deterring organizations from participating in illegal/unethical behavior.
Section four, Additional Changes with the Promulgation of the Federal Sentencing Guidelines, will review other changes that have come about since the introduction of the Guidelines, such as the new academic and professional fields of organizational ethics and the ethics officer association, that the Guidelines have influenced. It is helpful to know what areas have been impacted by the Guidelines, so we can see how they have influenced more awareness in the area of ethics.

Section five, the Impact of the Guidelines, will review surveys that have been done regarding ethical behavior in organizations, specifically whether employees in organizations believe that their organization is more ethical as a result of having an ethics/compliance program in place. If we know that ethics/compliance programs are being successful when organizations follow the Guidelines recommendations, we want to encourage more support of the Guidelines. If there is not success then we need to find out what will assist organizations in implementing successful ethics programs.

Section six, Review of the Guidelines after More Than a Decade of Practice, agrees that the Guidelines have had a large impact on increasing awareness of ethical issues. The Federal Ad Hoc Advisory Group, who did a formal review of the Guidelines (2003), concluded that the Guidelines have been successful in inducing organizations to focus on compliance and to create programs to prevent and detect violations of law. The concern raised though, is how effective the ethics/compliance programs are that are being implemented. If ethics/compliance programs are not being successful, why not, and what additional measures need to be taken to accomplish success?

Section seven, Shortcomings, argues that there are two vital components missing from the Guidelines, leadership example and employee involvement. Without leadership
demonstrating support of ethics/compliance programs, employees will not take them seriously. Also if employees are not involved in the process of implementing an ethics/compliance program they will not have buy-in, and will be more resistive to them. If leadership is not supportive and there is not employee buy-in organizations will not have effective ethics/compliance programs and will not be able to reduce illegal/unethical behavior in their organization. This chapter will conclude that because of these shortcomings, organizations need to look beyond the Guidelines if they are going to be able to effectively implement ethics/compliance programs.

The final section of this chapter, Critical Reviews, presents criticisms in the methods the USSC gathers data to evaluate how many court decisions have been impacted by the Guidelines. Arguments are made stating; that if the information gathered is not complete (underreporting), there is no way to measure the Guidelines’ influence accurately (Alexander et al., April 2001; Parker and Atkins, April 1999). If we cannot measure the actual impact of the Guidelines on court decisions, then it is more challenging to use the court decisions as a deterrent for organizations that may be participating in illegal behavior. This section argues that the USSC has no way to directly regulate organizational behavior and that members of organizations are dependent on their leadership’s knowledge of the Guidelines and their views on what should be done about them. If leaders are ethical and try to comply with them, the organization will be headed in the right direction to becoming more ethical. But if leaders are not supportive and feel the risk is very small of being punished under the Guidelines, they will continue to participate in illegal behavior and employees are in a sense left to fend for themselves. In
this situation, if an employee were to report illegal behavior they would need additional support systems to help them (Steer, 2001; Walton, Fall 2000).

Legal Decisions

Our judicial system has been involved with organizational issues dating back to the Civil War when the False Claims Act was enacted. The False Claims Act allowed anyone the right to file a lawsuit against any person or entity that had committed fraud against the government (Findlaw, March 1999). If the False Claims Act had not been passed, people or entities would be able to commit fraud virtually unchecked with no accountability. Many years later, in 1909, the Supreme Court made a ruling that corporations could be held criminally liable for the actions of their agents (including employees) in New York Central and Hudson Railroads v. United States (Hall 1998, 549-560). So there was an ability to file suit with the False Claims Act and corporations could now be held liable for the illegal actions of their employees.

Another significant decision impacting organizations was the 1934 Securities Exchange Act (Exchange Act). After the Exchange Act was passed it created liability for directors and officers, who signed falsified and misleading publicly filed documents. However, there was a distinction made at that time between actively involved or "inside" directors and “outside” directors, without much involvement in their organization, with the courts giving greater leniency over the past seventy years to directors who were not directly involved in the day-to-day activities of their organization. This decision and leniency by the courts for “outside” directors seemed to encourage lack of involvement or accountability by directors. If the director of the organization was not involved in
making the decisions or in creating false or misleading documents, the organization and
the director were often not found liable. Many organizations saw that "outside" directors
were not being held liable, which did not do much to deter them from continuing in
illegal conduct (Block et al., 1999). Unfortunately, if there are not consequences for
illegal/unethical behavior, many organizations will choose to do business the way they
have always done, to make profits even at others expense.

It was not until 1978 that the Ethics in Government Act was passed, which
established the Government’s regulatory agency for ethics, the Office of Government
Ethics (OGE), which mandated financial disclosure for senior federal employees. So,
until 1978 there was not a whole lot of regulation for even our Government officials, let
alone private organizations.

Between the late 1960’s and the early 1980’s, expectations in the performance of
organizations began to change. Investigative reporters found that in the corporate field.
Many bribes, payoffs and other illegal activities were being made. Trusted organizations
including Beech-Nut (which promoted pure products when they were actually synthetic),
Nestle (who used unethical techniques to sell baby formula to third world countries),
corruption on Wall Street (many instances of insider trading) and Savings and Loan
banks, were being found guilty of fraud and of other illegal/unethical behavior (Cleek and

Because of these many illegal acts by previously trusted organizations, the Federal
Government began to receive pressure to make changes and after more than a decade of
research and debate, Congress determined that prior unfettered discretion of federal trial
judges needed to be structured, the administration of consequences needed to be more
certain and specific offenders needed to be targeted for more serious penalties. Congress then created the United States Sentencing Commission (USSC) (under the Sentencing Reform Act of 1984 in the provisions of the Comprehensive Crime Control Act) (USSC, 2002; Fiorelli, February 28, 2004). The Commission had seven voting members and was independent but under the guidance of the Judicial Branch. The USSC was given the responsibility of establishing sentencing policies and practices for federal courts with the goal of eliminating disparity and lack of certainty in sentencing as well as reducing illegal/unethical behavior (USSC, 1991) (Desio, 1997).

In 1986 there were amendments made to the False Claims Act, creating hefty rewards for whistle blowers who reported false claims made against the federal government (an attempt to encourage reporting), authorizing civil action suits, and eliminating the distinction between “inside” and “outside” directors by adding the definition of “‘knowingly’ as including both deliberate ignorance and acting [with] reckless disregard of the truth or falsity of the claim, so as to bring responsibility back to the directors and officers of organizations” (USSC, 1991). Although the distinction between directors was eliminated by the amendments to the False Claims Act, judges often ruled in favor of and continued to give leniency to “outside” directors.

In fact, in 1995 in the case of In re Glenford, Inc.--Securities Litigation the 9th Circuit Court ruled that an “outside” director’s position on an audit, executive or oversight committee was insufficient to establish liability (Block et al., 1999). The year prior in 1994 the Northern District court of California, in the In Gupta Corp. Securities Litigation, found that “outside” directors having access to corporate documents such as financial statements, press releases and presentations to securities analysts was

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insufficient to hold the officer liable. Often in these cases, if an "outside" director did attempt to be involved and had some kind of knowledge they were held liable by the court (Block et al., 1999). These rulings again seemed to support directors and officers in efforts to avoid too much involvement in their organizations, to avoid sanctions and penalties as well as responsibility. So even with the amendments to the False Claims Act in 1986, courts continued to rule leniently and in favor of "outside" directors, continuing the precedent that if the law was broken a corporation with an "outside" director would receive a slap on the hand or only minor sanctions.

It was not until 1999 (eight years after the Federal Sentencing Guidelines were promulgated), that the Securities and Exchange Commission (SEC) filed an *amicus curiae brief* in the *Howard v. Hui* case with the U.S. Court of Appeals, 9th Circuit, challenging the interpretation that "outside" directors are not liable. The original ruling was in favor of the corporate officer stating that the officer had to participate in the preparation of the false statements to be held liable. With the SEC’s appeal to the 9th Circuit Court, the ruling was changed and held that the corporate officer was liable even though he had not prepared the documents he had signed. The court determined that the "mere act of signing a false public statement ‘with scienter’ – conduct which is highly unreasonable and which represents an extreme departure from the standards of ordinary care… to the extent that the danger was either known to the defendant or so obvious that the defendant must have been aware of it – regardless of role in preparation was reason enough to be liable" (Block et al., 1999). According to the SEC, a code of ethics must apply to all in the organization including the executive and accounting officers. This ruling increased liability of corporate officers and deprecated the court’s view that an
officer or director can rely on management or professional advisors to address issues of corporate disclosure (Block et al., 1999; Salva, September 1999).

A few years earlier (1987), the Sentencing Reform Act had been challenged for its constitutionality in the *Mistretta v. U.S.* case. Mistretta claimed that the Sentencing Reform Act violated separation of powers as the Sentencing Commission was under the Judicial Branch. The challenge was rejected and the Supreme Court upheld the constitutionality of the Sentencing Reform Act. This was a very critical decision for the courts as the opposite decision would have nullified the Sentencing Reform Act, the sentencing commission itself and the Guidelines would not have been created (*Mistretta v. U.S.*, 1989).

Finally, in 1991, 6 years after the USSC was given the task of addressing inappropriate sentencing issues the Guidelines were promulgated (USSC 1991/1998, Chapter 8). The specifics of the Guidelines will be discussed in more detail later in this chapter. The Guidelines did create vicarious liability meaning officers and directors were required to demonstrate that they have attempted to prevent illegal/unethical behavior in their organization. According to Ferrell et al., “historically, companies have incorporated for limited liability, but the principle of vicarious liability means that now organizations can be held liable if they have not followed the minimum requirements of the Federal Sentencing Guidelines for Organizations” (1998, 355).

**Federal Sentencing Guidelines**

In 1991 the USSC promulgated the Guidelines (USSC 1991, Chapter 8). The Guidelines strongly encourage organizations to implement ethics/compliance programs to
ensure their organization is reducing their illegal/unethical behavior. The Federal Sentencing Guidelines for Organizations lays out a minimum framework for effective ethics/compliance programs. These Guidelines, as summarized by Kenneth Johnson of the Ethical Edge, are that organizations must:

1) Establish effective compliance standards and procedures
2) Assign specific, high-level person(s) to oversee compliance accountability
3) Use due care not to delegate important responsibilities to known high-risk persons
4) Communicate programs effectively to all employees and agents
5) Monitor and audit program operation and establish a retribution-free means for employees to report possible violations to management
6) Consistently discipline employee violators
7) Respond promptly to offenses and remedy any program deficiencies (USSC 1991, Chapter 8; Johnson 2001).

The first requirement states that companies must establish effective compliance standards and procedures. ‘Effective’ could be described as producing a desired outcome or response. In order to know if the standards set by organizations are effective there must be evaluation or assessment tools in place, which is required by number five of the Guidelines. The desired response of the USSC is an increase in ethical behavior and a decrease in unethical/illegal actions for organizations, through the implementation of ethics/compliance programs (USSC, 1991). So, the USSC is stating that if organizations
effectively implement ethics/compliance programs and evaluate them they should be able to reduce inappropriate behavior in their organization.

The second requirement states that an organization must assign specific, high-level person(s) to oversee compliance. Generally, staff in areas of human resources or administration take on these responsibilities, and some companies hire ethics officers (Ethics Officer Association Survey, 1997). This person(s) would be responsible to oversee the ethics program and be accountable for proper communication, implementation, evaluation effectiveness and follow-through. The third requirement of the Guidelines — to use due care not to delegate important responsibilities to known high-risk persons — would be addressed when there is a person assigned to oversee the ethics program and really should be included with number two. It is also important to have someone who is skilled in the area of ethics in a leadership position to properly implement an ethics/compliance program.

The fourth requirement states that programs must be communicated effectively to all employees and agents. Means for doing this could be by email, memos, training, teamwork groups (including listening and feedback through the process of dialogue, to ensure perceptions of shared information are accurate) (Senge, 1990; Nielsen, 1996), pilot programs, and feedback of employees, some of the methods of communication being more productive than others. Email and memos are less effective as people tend to read them or not and discard them with their many other memos and emails. Teamwork groups are the most effective as everyone has a chance to see and understand different views and interpretations, and give feedback, with the desired end being a shared
understanding or vision. Communication in the form of dialogue through teamwork
groups will be discussed in more detail in Chapter IV.

The first half of requirement number five seems to belong with number four, which
is monitoring and auditing programs. This seems to be an essential component to ensure
there is proper communication to all departments and that the changes are actually being
understood and readily available to be used by all employees. If there is not a feedback
loop or audit system there is no way of knowing whether the changes made are indeed
allowing or encouraging employee understanding or the organizations to be more ethical.
When auditing organizational compliance, we need to be able to answer the questions,
has the information been communicated and do we have documentation of how this was
done? Are employees understanding and demonstrating this new knowledge? If not,
why not, and what do we need to change to allow this to happen?

The second part of requirement five of the Guidelines are probably the most difficult
to accomplish: truly creating a retribution-free (no negative consequences for reporting
problems or unethical/illegall behavior) environment for employees. One of the greatest
hurdles would be convincing employees that it is now safe to report unethical behavior
without intimidation (threaten employees not to report or get them to back off once a
report has been made) or retaliation (treating them poorly after they report) when this has
not been the case in the past. Tom Morris states that it is almost impossible to repair
bridges that have been burned due to lies and inconsistent actions (1997, 43). By
effectively accomplishing the sixth and seventh requirements of the Guidelines,
consistently disciplining employee violators and responding promptly to offenses to
remedy any program deficiencies, organizations can begin to build trust so the employees will know what to expect if they did make a report.

These seven requirements are very general and left open to interpretation. This is good in the sense that organizations will be able to utilize them to fit their individual business needs. But it is also risky because some will be tempted to do the bare minimum to satisfy them and as will be shown later in the chapter and in Chapter III.

Post Guidelines Court Decisions

Shortly following the Guidelines' promulgation, the courts began to use them as a guide in making decisions in federal cases (USSC 1991, Chapter 8). In May of 1994, the Guidelines become the basis for sweeping compliance program measures required of a corporate defendant in U.S. v. Lucas Aerospace Communications & Electronics (Kaplan, Nov/Dec 2001). In this case and many subsequent cases, civil as well as criminal, corporations were required to implement Guideline-based ethics/compliance programs. These settlement agreements assisted in creating new precedents in emerging compliance law as corporations were now receiving larger financial penalties, probation and mandates to create effective ethics/compliance programs (Jordan and Murphy, 1996).

In another decision made in April 1995, following its convictions of an environmental offense, Con Edison became the subject of a probation order (inspired by the Guidelines' probation provisions) with onerous compliance-related requirements (Kaplan Nov/Dec 2001).

In February 1996, a $349 million fine was imposed under the Guidelines in United States v. The Daiwa Bank. LTD., Southern District court of New York. Daiwa was
participating in an unauthorized off-the-books trading scheme involving billions of dollars of U.S. Treasury obligations and future contracts for those securities that resulted in a $1.1 billion loss. Daiwa’s management and an outside trader unlawfully conspired to conceal this from U.S. regulators for more than two months and eventually plead guilty on 16 counts (Kaplan Nov/Dec 2001).

Five years after the Guidelines came into effect in 1996, the Federal Sentencing Guidelines were put to the test in the high profile case of Chancery Delaware, *In re Caremark International Inc.—Derivative Litigation*. The court’s decision (supporting the Guidelines) determined that it was the responsibility of board members of organizations to ensure the existence of ethics/compliance programs and their implementation, and to ensure that their effectiveness was monitored. The court held that under the Federal Securities Act that the board of directors must attempt in good faith to assure that corporate information and reporting systems exist (*In re Caremark International Inc.—Derivative Litigation, 1996*).

Most importantly, the Chancery court observed that the Guidelines “offer powerful incentives for corporations today to have in place compliance programs to detect [a] violation of law” and “gave movement toward corporate self-policing”. Caremark was ultimately fined $250 million in criminal fines (Bednar et al. 2003, 31), civil restitution and damages for kickbacks and fraud in its home infusion, oncology, hemophilia, and human growth hormone business (*In re Caremark International Inc.—Derivative Litigation, 1996*). The Caremark decision was considered by the legal community to be a landmark decision.
In another case citing Caremark, the Fourth Circuit Court ruled in *Dellastatious v. Williams* that directors can avoid liability in shareholder derivative suits by showing a good faith attempt to create “an adequate corporate information – gathering and reporting system” (Murphy 2002, 714-715). These decisions gave increasing strength to the Guidelines.

In another decision, the Sixth Circuit Court held in *McCall v. Scott* (another derivative suit in the Caremark line) that directors can be considered as breaching their fiduciary responsibility if they intentionally or recklessly disregard “red flags” that should alert them to fraudulent practices within their organizations. It had thus become critical for corporate directors to make sure that their organizations had implemented effective ethics/compliance programs for legal and regulatory compliance (Murphy 2002, 714-715). The courts in these cases backed the Guidelines, letting organizations know that the Guidelines would be enforced.

In May 1999, pharmaceutical giant Hoffman-LaRoche, Ltd. was convicted of an antitrust conspiracy and fined $500 million under the Guidelines, which was at that time the largest criminal fine in the history of American law. Also BASF AG paid a fine of $225 million relating to the same conspiracy. Rhone Poulenc was awarded amnesty because it was the first to report the offense. In an additional case, in October 2001, a $290 million criminal fine – the largest in health care was given to TAP Pharmaceuticals (Kaplan, Nov/Dec 2001).

Also under the influence of the Guidelines, the Sarbanes-Oxley Act of 2002 decided that every publicly traded company is required to either adopt and disclose a “code of ethics” addressing law compliance and ethical conduct by key corporate officers, or to
explain publicly why the company has not adopted such a code, putting additional pressure on organizations to have ethics/compliance programs (Bednar et al. 2003, 39). The Sarbanes-Oxley Act also ruled that organizations must also demonstrate that they have adequate systems to protect whistle-blowing employees who report wrongdoing. To please this new requirement many organizations began hiring telephone hot line companies to take and monitor these types of calls (The Economy, January 6-12, 2003).

Each of these judicial decisions has impacted organizations and how they function in some way. The more recent decisions have led to more ethics training and programs being put in place and held officers and directors of organizations more responsible for their organization's behavior. They also encourage protection of employees or whistle-blowers that report illegal behavior. Ethics training appears to be a vital part of compliance with the Guidelines. Employees must know what is ethical and what their organizations expect of them. If they know what is expected then they can demonstrate this by making ethical choices. Officers and directors must also be held liable or many of them will not take the Guidelines seriously and continue in their illegal behavior. Whistle-blowers must also be protected or they will choose not to report illegal/unethical behavior because the risk is too great.

Additional Changes with the Promulgation of the
Federal Sentencing Guidelines

The Federal Sentencing Guidelines for Organizations have influenced other changes as well. In December 1991, the Environmental Protection Agency (EPA) announced that
it would utilize the Guidelines’ articulation of effective compliance program elements with debarment decisions (Kaplan, Nov/Dec 2001).

Before the Guidelines were promulgated no professional organization of ethics and compliance officers existed. In 1992, the Ethics Officer Association was formed with 12 members and grew to 800 by 2002 with more than 1000 in 2003 (Bednar et al. 2003, 29-30).


In reflection of the spread of the Guidelines approach, prosecutors from various divisions of the Department of Justice stated that their offices take into account whether a company had a compliance program at the time of the offense in determining whether to prosecute the company (Kaplan, Nov/Dec 2001).

In December of 1995 the EPA issued a policy, “Incentives for Self-Policing: Discovery, Disclosure, Correction and Prevention of Violations” which provides, in some circumstances, for reduced civil penalties and no criminal sanctions for corporations with effective environmental compliance programs (Kaplan, Nov/Dec 2001).

In 1996, the U.S. Department of Health and Human Resources adopted numerous measures known as “model compliance plans”, setting forth in great specificity elements of compliance programs for health care providers and providing incentives for the development of such programs (Kaplan, Nov/Dec 2001).

By May 2001, nearly 500 law review articles and over 300 newspaper articles had addressed the Guidelines. A recent literature review conducted by a major university
located 18,381 current articles related to compliance, corporate integrity and the Sentencing Guidelines (Murphy 2002, 707).

According to Steer, member and vice chair of the USSC in 2001, the impact of the Guidelines has been bolstered by actions of several government agencies. The EPA Enforcement Division and the Office of Inspector General (OIG) in the Department of Health and Human Services (HHS) both have adopted regulations for their agencies that build upon the principles in the Guidelines. The EPA’s policies encourage self-regulation, prevention, voluntary reporting, and correction of environmental violations. The HHS’s OIG has issued a series of model compliance program guides for each major category of providers in the health care industry, using the Guidelines’ seven minimum steps necessary to have an effective ethics/compliance program. The U.S. Department of Justice has also adopted a set of principles that reinforce core precepts of the Guidelines (Steer 2001, 13-16).

It is helpful to know what areas have been impacted by the Guidelines, so we can see how they have influenced more awareness in the area of ethics. It is also helpful to know if these organizational decisions to support the Guidelines have provided safer more ethical employment environments.

Impact of the Guidelines

The Ethics Resource Center conducted National Business Ethics Surveys in the years 1994 and 2000 to test employee perceptions of their work environment. The 1994 survey measured employees’ perceptions of how they were treated in their organization if they reported unethical behavior, whether or not they should report unethical behavior they
observed, and if they felt pressure to engage in unethical behavior. The overall findings indicated that ethics/compliance programs were becoming more common but employees were doubtful whether ethical behavior would be rewarded. One-third of those surveyed still felt some pressure to engage in unethical behavior and about one-third had observed misconduct. Only half of those observing the unethical behavior reported the misconduct (Ethics Resource Center, 1994; Daigneault, 2000). This survey was done about 3 years after the Guidelines were implemented, so the movement to put ethics/compliance programs in place was still new.

The 2000 National Business Ethics Survey focused on employees' perceptions of their employers relating to ethical issues. The survey reports that employee perceptions of ethics outcomes were more positive when the organization had an ethics/compliance program in place, when employees actually saw honesty, respect and trust in their organizations, and when leaders in organizations modeled ethical behavior (Ethics Resource Center 2000).

In a third survey, the 2000 Organizational Integrity Study, the employees surveyed believed that “unethical behavior is caused by low morale, indifference to their concerns, deadline pressure, unrealistic earning goals, career advancement and inadequate training”. The survey found that employees saw organizational integrity being improved by incentives and rewards for compliance, demonstration of values from top management, more time and resources to perform job functions, support when concerns are raised, increases in communication and training and more realistic earning goals (Center for Business Ethics, 2000).
We see from these surveys that unethical behavior is still a concern to many employees. Organizations still have a long road ahead to make their businesses more ethical. It is encouraging to note though that this study found that ethics programs when accompanied by the previously stated criteria could impact the work environment positively.

As we can see the Guidelines set forth by the USSC are useful in many respects and have established a foundation for increased ethical behavior. They have also strongly encouraged organizations to make changes, specifically for them to implement ethics/compliance programs and to be more accountable or self-policing. The Guidelines also include many helpful suggestions for organizations who do implement programs (Fiorelli, July-Aug 1998, 49-52).

Review of Guidelines After More Than a Decade of Practice

According to Diana Murphy, former chair of the USSC, of all federal sentences imposed during the past five years (1996-2000), less than one percent was imposed on organizations, which does not seem to be a large enough percentage to deter organizations from participating in illegal/unethical behavior. Nevertheless, she believes these sentences impact many individual employees as well as the practices and culture of organizational defendants (Murphy 2002, 698-701). Of the 1500 cases sentenced under the Guidelines in a decade (1991-2001), $2.3 billion in fines, nearly $279 million in restitution and over 300 years of probation have been imposed. Dr. Robert Olsen, Executive Director of the Alliance for Health Care Integrity, stated, “more than any other public or private initiative, the Guidelines have motivated stakeholders in the health care
industry to take seriously the importance of compliance with federal statutes and
regulations, especially those related to the prevention of fraud, waste and abuse” (cited in
Murphy 2002, 709-710).

After more than a decade of the Federal Sentencing Guidelines for Organizations
being in effect, an Ad Hoc Advisory Group on the Organizational Sentencing Guidelines
(Advisory Group) was commissioned (October 2003) to review the impact of the
Guidelines and make recommendations for improvements. The Advisory Group was
composed of fifteen individuals with a broad range of experience in business, federal
criminal prosecution and defense, federal probation, legal scholarship, corporate
compliance and business ethics (Bednar et al. 2003, 1). On October 7, 2003,
recommendations for improvements in the Sentencing Guidelines were made and
accepted. The Ad Hoc Advisory Group collected data on organizational sentencing and
the data reflects that 1,642 organizations have been sentenced under the Guidelines since
the Commission began receiving data in 1993. 65% of cases are environmental, food and
drug crimes and are not included under the scope of the Guidelines. In 2002, only 94 of
the 238 cases (39%) of sentencing results and culpability scores were reported to the
Commission, leaving gaps in the data collected (Bednar et al. 2003, 25). For fiscal years
1993-2001, the Sentencing Commission received culpability scores for 812 cases. .4% of
cases sentenced received credit for having an effective program to detect violations. 222
(28%) of defendants accepted responsibility, 444 (55%) obtained cooperation credit, and
9 (7%) received credit for self-reporting (Bednar et al. 2003, 26-27).

The recommendations made by the 2003 Advisory Group were: (1) emphasis on the
importance within the Guidelines of an organizational culture that encourages a
commitment to compliance with the law; (2) providing a definition of “compliance standards and procedures”; (3) specifying the responsibilities of an organization’s governing authority and organizational leadership for compliance; (4) emphasis on the importance of adequate resources and authority for individuals within organizations with the responsibility for the implementation of an effective program; (5) replacing current terminology of “propensity to engage in violations of law” with language that defines the nature of an organizations’ efforts to determine when an individual has a reason to know, or history of engaging in violations of law; (6) include training and dissemination of training materials and information with the definition of an “effective program”, adding “periodic evaluation of the effectiveness of a program” to the requirement for monitoring and auditing systems; (7) require a mechanism for anonymous reporting (Sarbanes-Oxley Act, 2002); (8) include the phrase “seek guidance about potential or actual violations of law” within the criteria in order to more specifically encourage prevention and deterrence of violations of laws as part of compliance programs; and (9) provide for the conduct of ongoing risk assessments as part of the implementation of an “effective program” (Bednar et al. 2003, 4). In summary organizations must also promote a culture that encourages commitment to obeying the law (Fiorelli, February 28, 2004).

On April 8, 2004 in response to the Ad Hoc Advisory Group’s recommendations and influenced by the passage of the Sarbanes-Oxley Act (2002) the United States Sentencing Commission (USSC) voted unanimously to amend the existing organizational guidelines to make more stringent the criteria for effective ethics and compliance programs. “Under the revised guidelines, if companies hope to mitigate criminal fines and penalties, they must also promote an organizational culture that encourages a
commitment to compliance within the law and ethical conduct by exercising due diligence in meeting the criteria”. Commission Vice Chair Ruben Castillo, a district judge in Chicago, stated that “A good corporate citizen must in the first instance operate ethically.” The USSC’s focus on ethical behavior in organizations is seen as being a unique development in the 13-year history of the organizational sentencing guidelines (USSC, April 13, 2004).

The Advisory Group concluded that the Guidelines have been successful in inducing organizations, both directly and indirectly, to focus on compliance and to create programs to prevent and detect violations of law. However, they also recognize that with such small numbers of self-reports by organizations and very few getting credit for effective ethics programs this may understate the value of effective ethics/compliance programs or as Bednar et al. suggest, the deficit could be found in the actual implementation method chosen (2003, 26-27). The latter is definitely a concern and will be discussed in Chapter III.

Shortcomings

Although the Guidelines have influenced more ethical awareness there are two key factors missing from the Guidelines that greatly affect successful outcomes of ethics/compliance programs, both of them impacting the success of implementation. It is believed that an organization cannot be successful in implementing a program and maintaining an ethical environment without them.

First, organizations must have the standards that are set forth by their ethics programs modeled by the leadership at all levels of their organization.
Ferrell et al. argue that in order "to be effective, the program must establish an organizational support system that represents commitment among top managers" (1998, 360). If the leadership does not model the desired behaviors, and in turn their behavior is not consistent with what they are saying, employees will not necessarily know what is expected or trust them and will not demonstrate the desired ethical behavior, and in most cases will not report unethical behavior. Leadership example impacts the overall organizational environment/culture. The task of the leader is to share the vision for the organization with the employees, model the behavior, be consistent and reward improvement. "Without a vision, there is no sense of direction" (Terziovski et al. 2000, 23-32).

To illustrate: the Deutscher Metal Products Group recognized the critical role of leadership at all levels of their organization and used evaluation tools to assess how the leadership was being perceived. Deutscher used some creative ideas to assist all employees in changing perceptions. For example, they took away time clocks, used first names, and had no reserved parking, which assisted in surrendering status symbols and put everyone on the same level. All levels of the company were able to communicate with the highest level in the organization. Leadership enacted the values of cooperation, trust, mutual respect and excellence in performance and shared learning (Terziovski et al. 2000, 23-32). Deutscher Metal Products Group created a culture/environment that was supportive to the staff through leadership example. At Deutscher, from the CEO to the managers and supervisors, the leadership was modeling consistent and supportive behavior to their employees. When the leadership was consistent and supportive the employees knew what was expected of them. When employees knew what was expected
they were able to fulfill the instructions they were given by leadership. Thus, by the leadership modeling consistent behavior they were able to influence the employee's behavior, to accomplish what was expected of them. Employee behavior can be influenced to be ethical or unethical in this same manner. So, leadership from the CEO to managers and supervisors must be supportive and consistent and there must be accountability and follow-through if it is expected that employees will cooperate with their ethics/compliance program, let alone any other important policies or procedures.

The second essential component of proper implementation is employee involvement. South Pacific Tyres of Australia had a plan for improvement in their organization using ethics/compliance program measures. Their vision focused on the customer, improved processes and the development of an internationally—oriented team quality culture. Employees were sent to Japan to be trained and study organizations that had used similar approaches. Employees were also sent to oversee the development of the Tyre building technology and to assist with implementation of the pilot project. When they returned they disseminated the information to all in the organization. The CEO played a crucial role by demonstrating full, public and continuing commitment at all stages of the change process and by communicating with his staff and seeking direct feedback. The participation of employees in the development of the vision led to a high level of commitment and a sense of ownership and allowed them to communicate their vision throughout the organization across all sites geographically spread around Australia. Using this method of employee input resulted in organizational resolve, conviction, commitment and clarity of intent (Terziovski et al. 2000, 23-32).
Input and involvement by employees in organizations is invaluable. Employees are the ones in the "trenches" or doing the essential labor necessary for the organization to function, and often see mistakes or potential problems when they first occur and may know of an efficient way of repairing errors or correcting unethical/illegal behavior. If their input is not encouraged and positively viewed or rewarded and instead discouraged, problems may be overlooked as the employees fear the result of delivering bad news and the company will continue to produce a sub-par product or service or make unethical choices. If the sub par services and unethical choices continue then organizations will become unethical, creating much unintended damage to stakeholders.

On the other hand if leaders ask for employees' ideas and use them when possible, employees feel valued, that their input is important and that what they are doing does make a difference. Employees will not resist their own ideas (Boyett and Boyett, 1998/2004). If they feel their decisions matter and their input is valued they will have more buy-in, feel responsible for their work and make necessary improvements or become more ethical to make the best possible decisions.

Consistent leadership and employee involvement together are essential to create and maintain successful ethics/compliance programs. Both leadership and employees must buy-in to the program if they want employees to change their behavior to be more ethical. If leadership does not model ethical behavior as directed by their ethics/compliance program, employees will see this inconsistency and be unsure of how to act. If they are unsure, they will often refrain from reporting or taking the ethical route, and begin to model the questionable actions of leadership, creating an unethical environment. If employees are not included in the process of implementing ethics/compliance programs,
they will not have buy-in and will resist or do the bare minimum to appear as though they are cooperating. So, it seems valuable to create ethics/compliance programs that require leadership example as well as employee involvement and buy-in. There is some research suggesting employee input is important in organizational change. Because many organizations do not recognize the value of employee input and leadership example further research is needed to demonstrate their importance in the change process.

Critical Reviews

There are some critical reviews of the Guidelines’ impact and the ability to measure that impact accurately. One of these critiques is that less than appropriate data has been provided to researchers to conclude that the Guidelines have had the intended impact, specifically reducing illegal/unethical behavior in organizations through ethics/compliance programs. Alexander et al. performed an independent evaluation on the quality of data on corporate sanctions that the USSC releases to the public. They found that the post-Guidelines data on penalties for public corporations appear to be incomplete and non-representative of the underlying case population, thereby missing a disproportionate number of large fines. They also determined that the USSC’s data was missing variables that may explain a substantial part of the case-by-case variation that occurs in sentencing. The data revealed little about the severity of the offense, judge’s identity, nor the offender or corporate name. Without appropriate data, it is difficult to evaluate the real consequences of proposed changes in sentencing practice, or to investigate the practical validity of expressed concerns about their fairness and effectiveness. Alexander et al. report that the USSC relies almost entirely on the
cooperation of the district courts under a letter of agreement with the Administrative Office of the U.S. Courts. The courts send the USSC paper copies of documents on relevant cases (April 2001, 1-11).

Prior to the Guidelines' introduction, the USSC collected data on all federal convictions, but after the Guidelines were implemented, they only requested data on cases that were governed by the Guidelines. They also began to focus more on information necessary to implement the Guidelines and less on the effectiveness of them. Alexander et al. focused their research efforts on cases between 1988 and 1996. They found that the USSC's data show 13 cases between 1992-1996 that were sentenced under the Guidelines. Alexander et al.'s review shows 34 cases that appeared to have been influenced by the Guidelines. Although they have concerns Alexander et al. report that in 1999 the USSC did take steps to improve the completeness of their data (Alexander et al., April 2001, 1-11).

In addition to Alexander et al., Parker and Atkins also express concern with the impact that the Guidelines have had. In their study, they found that in their empirical analysis of the Guidelines' impact in practice, there was no significant effect on the levels or structure of corporate monetary sanctions actually imposed, after controlling for the harm attributed to the offense. Parker and Atkins argue that corporate criminal sentencing guidelines should not be a critical factor in federal law enforcement policy, given the inherently limited role that the corporate criminal sentencing determinations play in the overall enforcement effort (April 1999, 423-453). From the statistics provided by the USSC it appears the Guidelines are not able to work as a deterrent.
Steer supports the assessment of Parker and Atkins in regards to the limited power the Guidelines actually have to directly regulate organizational behavior. The Guidelines become functional when implemented by the federal courts in a limited number of organizations that are convicted each year. Because of these limitations, "the 'Guidelines' ability to more generally deter corporate wrongdoing and promote desirable organizational behavior depends on (1) the awareness among organizational managers, agents, and employees of the Guidelines' potential punitive impact, (2) the degree to which this awareness is convincing and subsequently translated into specific actions designed to change organizational behavior, and (3) the success of these specific actions in ensuring that day-to-day organizational operations and decisions are conducted in compliance with the law" (Steer 2001, 12-13). The Guidelines can only be applied if an organization is sued and sanctioned for illegal behavior. Since only a small percentage (less than 1%) of organizations are sued and sanctioned each year, this is not an effective deterrent (Murphy 2002). With the Guidelines lacking the ability to regulate organizations, their impact on enforcing their requirements is reduced and additional systems to regulate organizational behavior need to be put in place.

Steer argues that there is no empirical data that comprehensively charts changes in organizational crime rates over time. Therefore, it is not possible to assess the success of the Guidelines in altering the rates at which organizations commit crimes. If there is incomplete data as found by these researchers presented earlier in this section, then we do not know the real impact the Guidelines have had (2001). If the actual numbers of organizations reported to be sanctioned in court are low, then the Guidelines would become even less of a deterrent for illegal behavior and organizations many downplay the
risk of not having an effective program in place and choose not to implement a program at all. If organizations do not put effort into implementing effective programs then we cannot see if ethics programs are effectively reducing illegal/unethical behavior. And if the USSC is not able to enforce programs or regulate the quality of them, then there needs to be a system in place outside the actual organization that holds them accountable. This system of accountability will be discussed in Chapter V.

Conclusion

Over the past one hundred years, legal decisions have been made that now influence modern day court cases involving organizations that are sanctioned for illegal/unethical behavior. These decisions have given anyone the right to file suit (Findlaw, March 1999), held that corporations could be held criminally liable for the actions of their agents (including employees) in *New York Central and Hudson Railroads v. United States* (Hall 1998, 549-560), and created the United States Sentencing Commission (USSC) with the responsibility of establishing sentencing policies and practices for the federal courts, with the end result being the promulgation of the Federal Sentencing Guidelines for Organizations in 1991. The Guidelines strongly encourage organizations to implement ethics/compliance programs to ensure their organizations are reducing their illegal/unethical behavior (USSC, 1991).

With the dissemination of the Guidelines in 1991, many organizations began to adopt ethics/compliance programs and the legal system began using the Guidelines in court decisions. The Guidelines have had influence in creating more awareness of ethical
issues and the development of the professional and academic fields dedicated to creating environments that are more ethical.

The Guidelines fall short as they fail to address the importance of the role of leadership and employee involvement in organizations, both of these factors being vital to producing effective ethics/compliance programs. If the leadership in an organization model and reward ethical behavior and in turn get employee input, employees will know what is expected of them, feel valued, buy in to the ethical behavior and then in turn model it. If employees model ethical behavior then an organization will be able to reduce its illegal/unethical conduct (Terziovski et al. 2000, 23-32).

It appears though that with less than one percent of organizations being sanctioned each year under the Guidelines they do not have the ability deter illegal/unethical behavior (Murphy 2002, 709-710). The Guidelines are unable to enforce their regulations unless organizations are sued and sanctioned. “There is substantial evidence demonstrating that, as strong as the Guidelines’ compliance incentives are, equally weighted incentives created by forces outside the organization may persuade organizations to pursue less than optimal, and in some cases, ineffective compliance programs” (Bednar et al. 2003, 6). Because of the Guidelines’ limitations, organizations need to look beyond them in order to successfully implement ethics/compliance programs and need additional systems in place to enforce implementation of quality programs. The next chapter will discuss the components of effective ethics/compliance programs.
CHAPTER III

EFFECTIVE ETHICS PROGRAMS

Introduction

Ethics or compliance programs are mandated by the Federal Sentencing Guidelines for Organizations (Guidelines). If organizations do not implement effective ethics/compliance programs, at the very least, they face larger financial penalties in the event that they are sued for misconduct. If they are sued for misconduct and receive sanctions they may be required to be on strict probation for several years, and implement an ethics program that is closely monitored by the courts, in addition to being subject to increased financial penalties. When the courts closely monitor organizations after they are sanctioned, there is a loss of freedom or ability to self-regulate, as the organization is continuously working to please the probation requirements. So there are incentives from the Federal Government for organizations to implement effective ethics programs, to protect themselves from severe penalties administered by the courts, and to continue to function with a low amount of government regulation (USSC, 2001).

While many organizations have implemented ethics/compliance programs since the creation of the Guidelines (1991), many more have only given “lip service” to them (state they support them but their actions do not). With the Ad Hoc Advisory Group’s awareness of this they began to see that ethical culture can determine whether a program
will be successful, so they recommended to the USSC that corporate culture be considered in their revisions.

It is important to know if organizational cultures do not support their ethics/compliance program they will not have increased ethical behavior in their organizations, which was the intent of the Guidelines. So the assumption is that those organizations that have properly put into place ethics/compliance programs actually increase ethical decision-making, reduce illegal/unethical behavior and fare better in court. If this claim of increased ethical behavior is true, then it would seem that most organizations would want to have an effective ethics/compliance program and work hard to implement it properly.

The first section of this chapter, Corporate Culture and Leadership, reviews the role of leadership and culture (Chapter I and II). It reiterates that organizational leadership must model ethical behavior if they are to be successful in executing ethics/compliance programs and in changing culture.

The second section, Corporate Culture and Employee Involvement, presents a study conducted by Trevino et al. They found that employees are more likely to report unethical behavior when they believe that there is strong ethical leadership and when there is consistency between words and actions. They concluded that ethics programs are very valuable and must be perceived by employees to be first and foremost about shared organizational values and about guiding employees to act on their instincts to do the right thing. Trevino et al. argue that if ethics/compliance programs are implemented properly they will reduce unethical/illegal behavior in an organization (Trevino et al. 1999, 131-150; Weaver and Trevino 2000, 315-335; Brooks 1989, 31-38).
The third section, Case Studies, will present two organizations that experienced success in making organizational changes by using employee involvement with leadership buy-in. A third case study will be presented to demonstrate an organization that had some success in making changes, but were not completely successful as they fell short in involving employees as much as they could have and all leadership was not consistent. Because of this shortcoming, some of their employees did not feel that the changes were beneficial and did not feel valued.

The fourth section, Lip Service, demonstrates the damage that can be caused when organizations have ethics/compliance programs in place and state they support them, but their actions do not. The cases of NASA and Enron are cited as organizations that only gave “lip service” to their codes of ethics and the damage that came about as a result.

The fifth section, Focus on Profits, goes more into detail on the dangers of organizations’ focus being on profits and not the value of the employees who are assigned to do the work to make the profits. If organizations’ focus is on profits employees can often be pressured into unethical behavior to appear to be successful to maintain employment.

The sixth section, Moral Obligations, will discuss what moral obligation employees have to report illegal conduct and what type of moral obligation there is for organizations to provide an ethical environment. It will conclude that because the Guidelines are insufficient to enforce ethical behavior and many organizations do not feel a moral obligation to do this that additional support systems for employees who report are needed and additional monitoring systems to ensure organizations are encouraging ethical behavior are necessary.
Corporate Culture and Leadership

Cleek and Leonard have conducted a survey that was administered to 150 business students at a large university. Cleek and Leonard conducted this study under the assumption that most college students have been or are now employed in at least entry-level positions and that most graduate students have held professional employment positions. Therefore, they believe that their sample group would be representative of established employees in an organization. The survey’s findings concluded that corporate codes of ethics or ethics/compliance programs by themselves are not influential in determining a person’s ethical decision-making behavior. They state that although there are many organizations that are attempting to promote values and instill ethical behavior in their employees through providing ethics training, there has not been much research done that shows that the actual method of the implementation process used is what influences more ethical choices by employees (Cleek and Leonard 1998, 619-620). So more research needs to be done on the importance of implementation processes.

Whatever the chosen method of implementation, Cleek and Leonard, Hartman, Malhotra, and the Ad Hoc Advisory Group believe that not only can organizational culture influence behavior to be ethical but, “Organizations must be responsible for the moral climate of the workforce rather than expect all of the employees to ethically monitor themselves” because the “organizational system plays a critical role in setting the stage upon which the ethical dilemmas that their managers face are played out” (Cleek and Leonard 1998, 621-622). Although organizations cannot control their individual employees’ ethical decisions, they can influence them and they are responsible for showing them how to make decisions that are more ethical. When an organization places
value and importance on good ethical decisions, employees can see this. If leadership models this ethical behavior, and makes it clear that the expectation is of everyone, employees will follow their example. So, if an organization and its leadership are ethical its employees and organizational culture are more likely to be ethical.

According to Hartman, “corporate culture is the primary means of inducing any sort of behavior in an organization” (1996, 146) “and is a vehicle for imparting and maintaining the moral principles and the values that govern life in the organization” (1996, 150). So one has to consider the corporate culture (Chapter I) before beginning to make changes or implementing ethics programs. Andrew Brien states that, “the cause of ethical failure in organizations often can be traced to their organizational culture and the failure on the part of the leadership to actively promote ethical ideals and practices” (1998, 391). So, according to these assessments, organizational culture and leadership play an important role in determining whether an organization will be ethical.

Corporate Culture and Employee Involvement

Trevino et al. conducted a study in 1999 to determine what ethics/compliance programs actually accomplish. They sent out 10,000 surveys to six large American companies. Their study found, as did Cleek and Leonard’s, that the factor of consistent leadership was very important as were perceptions of fairness, open discussion of ethics issues, and ethical behavior being perceived as being rewarded; these were the most influential in determining an ethical culture. They also found that if employees’ perceptions were that they were expected to cooperate with unquestioning obedience (Chapter IV single-loop dialogue, Nielsen, 1996) and that leadership was focused on self-
interest the culture would not be very ethical. In this type of environment, employees would not be able to ask questions about concerns they had if they thought the behavior they were being asked to participate in was inappropriate. They would be required to obey and possibly be participating in illegal/unethical behavior. The authors' recommendations (based on their findings) were to involve employees when possible in decisions that impact their work environment. They believe employees are more likely to report unethical behavior when they believe that there is strong ethical leadership, that the organization is employee—and community—focused, that there is fair treatment, that there is consistency between words and actions and that their input is valued (Trevino et al. 1999, 131-150; Ryan, December 1998).

Trevino et al. determined that an ethics program must be perceived by employees to be first and foremost about shared organizational values or unity (Morris, 1997) and about guiding employees to act on their instincts to do the right thing. According to Trevino et al., when ethics programs promote shared organizational values, unethical/illegal behavior is decreased, loyalty to the organization increases, and employees believe that they are valued and that they do have effective ethics programs (Trevino et al. 1999, 131-150; Evans and Lindsay, 1999).

If we ask, what is valued or important to employees and then their input for organizational change is solicited and then used, employees feel that they are valuable to their organization. When employees are feeling valued they take more ownership in their organization. When they take more ownership they want to see their organization do well and in turn will work harder and make better or more ethical choices to see this happen. When organizations recognize the importance of utilizing employee input, they
will have more success in influencing their ethical choices. If an organization can influence its members to make good ethical choices there will be less theft, fewer unreported problems, and less insecurity in decision-making—ultimately resulting in a more productive, safe and positive work environment, which will increase ethical behavior.

Case Studies

The following section presents three reputable organizations that have attempted to implement ethics/compliance program measures. The first two companies demonstrate that organizations can successfully implement change by having leadership to model behavior and involving employees, in addition to following the requirements of the Federal Sentencing Guidelines. The third example shows some success, but because they lacked consistent leadership, they were not able to achieve as good of results as the two former organizations.

The first organization, Carter Ryley Thomas (CRT), is an organization that asked for employee input in development of their company values. CRT reports that involving employees in the decision making process was an important step for their company. Their employees were able to set the company’s values, which were consistent with their own personal values, creating buy-in. Once these values were established, they were communicated to all in the organization and modeled by leadership. Value-based decision making and compliance was then openly encouraged and rewarded. When employees at CRT had difficult decisions to make, they would turn to their values for guidance. Their stated values are: (1) What’s good for the group comes first (also...
discussed by Senge in Chapter IV), (2) Always be open and honest (*truth*, discussed by Morris in Chapter I), (3) Have a passion for unsurpassed quality, continuous learning and excellence (*beauty*, discussed by Morris Chapter I) (4) Work for and trust each other (*truth*, discussed by Morris in Chapter I), (5) Deliver more than promised, (6) Seek responsibility and share recognition and rewards, (7) Respect and value individuals (*goodness*, discussed by Morris in chapter I), (8) Keep balance between family and home, and (9) Give without expecting anything in return (Gebler, May 2001). Because CRT employees had input, they had more ownership and *loyalty* in their organization (Hirschman, 1970). This is not to say that organizations can or should involve employees in every decision made, but getting input when there are significant changes that impact employees’ responsibilities is very important, if the desired change is to be successful.

With everyone in the organization at CRT using the same values to make decisions, decisions were more consistent. When decisions are more consistent, employees can trust that they are making the right choices that are approved and accepted by leadership. Stakeholders also knew what to expect from the organization. If stakeholders trust an organization to perform at a high level of quality, they will choose that organization over another that is not as consistent or trustworthy, thereby increasing the former organization’s reputation for fair dealing. So as a result of the decision to value employee input, CRT was able to create a reputation of good quality, increased loyalty and buy-in from employees while attracting more business, which created more revenue, while involving and respecting their employees (Gebler, May 2001).

The second organization that experienced success in implementing cultural change by using ethics/compliance program measures is the Canadian Imperial Bank of
Commerce (CIBC). The CIBC was a traditional, highly successful, large (30,000 employees), and diversified bank with hierarchical structures and a rules-driven culture. CIBC's new structural plan was based on four key premises (Smith 1999, 217-224): (1) The approach must be systematic, (2) The influence of management was so critical that their needs must be addressed first (leadership example), (3) The unethical behaviors and habits of employees and leaders must be changed to new ways of thinking and learning, not the other way around (culture, Hartman) (unity, Morris), (4) The effort must be focused on performances and it must be business "outcomes" driven.

CIBC's main efforts focused on restructuring their training organization by organizing them into employee development centers. Initial focus was to train bank managers and then distribute information and training to the other levels of the organization. The employees of the bank developed new skills, such as self-directed learning, enhanced leadership qualities, learning self-assessment tools, and participating in individual consultations in support of career planning development. The CIBC successfully implemented all changes after three and a half years and have made continued progress in their organization. Without all levels of employment being involved and a strong leadership example, CIBC would not have been as successful at implementing these internal changes, to assist the organization to adapt to the continuous changes that occur in technology impacting the business community (Smith 1999, 217-224).

Gardiner and Whiting (1997) present the third case study example where they conducted an empirical study on a large defense—oriented engineering company (name not provided) in the southwest. The characteristics of their existing organizational
culture were that the organization was hierarchical. With up to six levels of management, managers had little time to consider direction and future strategy, communications were inefficient, there was no overall system of direction for the organization and information was seen to be the prerogative of management. This organization had many employees who were highly skilled and only performed one type of specialized task, decisions were top down, and there was no discussion or no consensus (Gardiner and Whiting 1997, 41-48).

This company chose initially to implement changes in one section of the company. The reorganization consisted of emphasis on shared vision (Chapter IV) departmental goals toward which everyone would work and learning new skills to become multifunctional. Workers were separated into teams and given the authority to carry out work without direct supervision, employees were encouraged to take initiative, new ways of doing things were promoted, and errors were seen as opportunities to learn, which occurs when a organizational environment has beauty (Morris, 1997). Supervisors in the organization were to provide coaching instead of control (Gardiner and Whiting 1997, 41-48).

The program was implemented in 1992 and evaluated three years later, in 1995. The results of the evaluation showed that employees appeared to be satisfied with their ability to take initiative and have responsibility for their own learning and education, as well as work successfully in teams, which improved performance and job satisfaction. Because of changes made, more employees were satisfied with their work environment and had increased productivity.
While there were great improvements in this organization, there were still employees who reported not feeling valued and part of the organization. Gardiner and Whiting attributed this to inconsistent leadership styles especially when it came to communicating information (including the vision of the company) to employees and strengthening the climate of trust and openness. So some of the leadership was more successful than others in changing their own style of leadership to place value on the individual employee. Suggestions for this company from Gardiner and Whiting were to expand employee input into the area of policymaking where at present the employees were not involved. Information also needed to be available to leadership and employees at every level to assist with communication that was more effective. There also needed to be a feedback process to evaluate the level of understanding of the changes made. If leadership and employees were found to understand the changes and then put them into practice, then there would be more positive changes in the organization (Gardiner and Whiting 1997, 41-48). From this example, we can see the importance of properly implementing ethics programs with good consistent leadership and employee involvement.

To summarize, CRT used employee input among other tools to create their values and was able to make successful changes in their organization. With everyone in the organization at CRT using the same values to make decisions, decisions were more consistent. The leadership in CRT and CIBC bought into and modeled the ethical behavior they wanted their employees to demonstrate. They also both included and trained their employees at all levels, demonstrating how valuable each employee was to their respective organization. As a result, they were able to implement successful change. With this change, they were able to improve their reputations as organizations that were
trustworthy and had the ability to adjust to the changing needs of the communities they served. The third organization also made some improvements. For the most part employees were pleased with their ability to have more input and increase their skills. They fell short in providing information to everyone in the organization and in having consistent leadership. Without complete buy-in to these factors—leadership and employee input—they were not able to effectively implement all the changes they desired. While there is some evidence that demonstrates the importance of employee input and leadership involvement, addition research would be valuable to make stronger arguments to convince organizations of their value.

Lip Service

Now we see that some organizations are implementing successful ethics/compliance program measures, but there are many more (as demonstrated by the Enron and NASA cases) who are only giving “lip service” to these measures by stating they support ethics/compliance programs, but their actions have been contrary, and many times the consequences of this have been disastrous. Acting contrary to a policy that the organization states they support would be unethical and sometimes illegal. According to the Center for Business Ethics Organization Integrity Study, if this type of leadership is allowed to exist, that organization will begin to see low morale because there is indifference to employees’ concerns, unrealistic earning goals, inadequate training, or lack of trust and safety, which in turn can get attitudes of hopelessness, affecting morale, atmosphere, productivity, customer service and quality (Center for Business Ethics, 2000). The only way to stay in the game, in this type of organization, would be to be
dishonest and manipulate the numbers to appear that you are reaching the unrealistic earnings set for the organization, or as Jim Goodnight CEO of SAS states, "you have to cook the books" (Safer, 2003).

The companies of Arthur Andersen and Enron both had written codes of ethics or business conduct before their recent legal problems. In Enron’s case (as reported by David Bushell of the Boston Globe), even with codes of ethics in place, “there were tremendous cultural gaps” and the company’s focus was on profits and arrogance not ethical behavior (June 23, 2002). Because the company’s “profit at any cost attitude” was modeled to their staff encouraging anyone who could to get benefits for the company, even if the facts had to be fudged a little, to participate in this behavior, the unethical behavior eventually got so out of control that Enron went bankrupt, negatively impacting the lives of stockholders, employees and clients. It appears that in this situation, no codes of ethics was enforced and employees who may have attempted to bring these problems to leadership were shut down (University of Ohio, Business Ethics Misconduct With Focus on Arthur Andersen Enron Case, 2002).

NASA also had some internal ethical concerns. The Space Shuttle Columbia was damaged at take off. There were several different personnel (engineers) in different departments of NASA that made efforts to investigate the possible damage and impact this would have on the space shuttle flight. All efforts to speak up and address the problem were eventually silenced, and those who had concerns were told there would be no risk. The engineers accepted this and did not pursue further investigation of the damage. In this case there was a series of unethical decisions made: (1) prior to the shuttle launching the issue of foam breaking off was a known safety hazard that had been
minimized and not addressed properly by NASA; (2) there was stifled communication among much of the leadership; (3) the engineers who were concerned about damage at takeoff and the safety of the shuttle flight were told by management that there were no risks and that the astronauts would be fine, and (4) the engineers who knew this foam damage had great potential to cause a problem did not go to the next authority figure to fight for an investigation for the safety of the shuttle crew (Columbia Accident Investigation Board August 2003, 177-194; Washington Post, Hilzenrath, March 1, 2003). In the internal ethical system of NASA, there seemed to be an unwritten understanding that going over the head of your boss for the safety of others was not an acceptable practice. NASA’s organizational image was one of, ‘we are doing well and we do not have problems’. Therefore, if we do not have problems then nothing will go wrong with the space shuttle flight (Columbia Accident Investigation Board August 2003, 177-194; Las Vegas Review Journal, Dunn, October 12, 2003).

With NASA’s culture encouraging the former behaviors, communication of the essential information for a safe flight did not occur. In NASA’s code of ethics number three it states, “Communication of system administrators with all [with] whom they may come in contact shall be kept to the highest standards of professional behavior”. The code of ethics more specifically states that “system administrators must keep users informed about computing matters that might affect them, such as conditions of acceptable use, sharing and availability of common resources, maintenance of security, occurrence of system monitoring, and any applicable legal obligations. It is incumbent upon the system administrator to ensure that such information is presented in a manner calculated to ensure user awareness and understanding” (The SAGE Code of Ethics, 79).
February 1997). NASA fell short in this case in providing appropriate communication as directed by their code of ethics to those involved with ensuring the safety of the shuttle flight.

In the report written by the Columbia Accident Investigation Board (Volume 1), they concluded that at NASA “cultural traits and organizational practices detrimental to safety and reliability were allowed to develop, including: reliance on past success as a substitute for sound engineering practices (such as testing to understand why systems were not performing in accordance with requirements/specifications); organizational barriers which prevented effective communication of critical safety information and stifled professional differences of opinion; lack of integrated management across program elements; and the evolution of an informal chain of command and decision-making processes that operated outside organizational rules” (Columbia Accident Investigation Board August 2003, 177-194; Palk, April 1999).

The Shuttle Independent Assessment Team reported the importance of understanding, communication, and information handling, all of which NASA’s organizational culture handled poorly. The Investigation Board believed that “deficiencies in communication, including those spelled out by the Shuttle Independent Assessment Team, were the foundation for the Columbia accident”. NASA’s code of ethics specifically states that communication was to be kept to the highest standards. NASA’s organizational behavior was contrary to its code of ethics. Leadership only gave “lip service” to this code and as a result there were several lives lost, loss of billions of dollars spent on the space shuttle program and loss of trust, to name a few negative...
consequences (Columbia Accident Investigation Board August 2003, 177-194; Las Vegas Review Journal, Dunn, October 12, 2003; Palk, April 1999).

When an organization does not make safety and reporting and addressing potential problems a high priority and in turn reward this behavior, organizations can experience major, even disastrous problems. On the other hand, when employees see that it is safe to report and that a situation is handled professionally and quickly without repercussions to themselves and others, they are more likely to report deviant behavior, preventing future problems. Lori A. Richards states, “If you’ve been listening, you know it’s not enough to have policies. It’s not enough to have procedures. It’s not enough to have good intentions. All of these can help. But to be successful, compliance must be an embedded part of your firm’s culture” (cited in Fiorelli, 2004). “The cause of ethical failure in organizations often can be traced to their organizational culture and the failure on the part of the leadership to actively promote ethical ideals and practices” (Brien 1998, 391).

Focus on Profits

It is important to see why ethical misconduct continues to take place in organizations and to understand why some companies choose to continue this direction even with the knowledge of the Federal Sentencing Guidelines and the consequences of non-compliance with them. Many companies argue that not following ethical guidelines provides more profits to the organization and this is their primary goal and must be the priority. They believe that regulations only hold companies back from being innovative and having flexibility to make adjustments with the changing market. In this vein, Milton Friedman states that, “there is one and only one social responsibility of business—to use
its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open free competition without deception or fraud” (1970, 154-159).

Most business organizations must make a profit in order to survive. If organizations want to be profitable, they must also be flexible and be able to adjust to changes in the market and technology. If they are able to adjust and keep up with changing needs, they will be able to keep their customer base. If they keep their customers then they will continue to be profitable. However, problems do arise when the focus of an organization is purely on profits and there is no ethics/compliance program modeled or to refer to for guidance.

In our society, we are all interdependent on one another for goods and services. We interact with others when we are creating or obtaining goods and services and some interactions will be recurring. So, it would seem valuable and morally correct to treat others respectfully or with goodness (Morris, 1997) and work to best meet their needs with a quality product. When the focus of an organization is on profits and making a deal, stakeholders including employees and customers can often be seen solely as a means to an end (what can you do for me to get me my sale). If the stakeholders (including employees) feel as though they are only a means to an end, they may decide that there is less attention given to what they actually need and more focus on getting them to buy a product (even if it is not what they want). If there is less attention to stakeholders’ needs, they will not be as satisfied with their product or employment environment. If they are not satisfied with products or their employment environment,
they may go elsewhere or exit (Hirschman, 1970) in hopes of finding a better product or place of employment.

Also of concern with an organization that focuses on profits only is the increased amount of pressure to be successful. If an employee in an organization is not being as productive as others, the employee may look for strategies to be more successful. If the employee is looking for strategies and does not have a code of ethics or ethics/compliance program to guide his/her behavior, the employee may look to managers and what others have done. If employees look to what others have done and others in the organization have cut corners or misrepresented themselves, the employee may do the same and model this behavior in order to remain competitive. As stated in Chapter I, if there are several people in the organization that agree to do something a little questionable, but for the good end result of profits, they will eventually participate in more and more questionable activity for the good of the company (profits) and personal survival in that organization. Once employees begin this behavior, it is very difficult to stop it as there is no supported ethical system to deter them and they are being successful and making profits. If they stop, they may then be less successful. When there is great pressure to be successful, many employees participate in cutting corners and rationalizing unethical decisions, the result is an unethical organizational environment (Adams and Balfour 1998, 3-8).

Ronald E. Berenbeim states that Enron was an example of employees modeling unethical behavior as they withheld information and fixed the numbers, giving them an unfair advantage (February 2002). Their senior management failed to be truthful by withholding information from the public and its shareholders. Enron also waived their
ethics code requirements by allowing their CFO to serve as general director for the partnership dealing with the company and provided him with a $7.5 million revolving credit line. To cover up Enron shredded many documents, as they knew their misconduct would have many legal repercussions (Berenbeim, February 2002). Because Arthur Andersen had handled Enron's finances and was linked to their illegal behavior, they too faced legal and financial repercussions tarnishing their reputation making them unable to practice in some states. In addition, they lost 690 of their 2,311 public clients (Berenbeim, February 2002).

Enron and Andersen both justified disregarding their codes of ethics or ethics/compliance programs to guide their behavior but focused on profits instead (University of Ohio, Business Ethics Misconduct With Focus on Arthur Anderson Enron Case, 2002). So, the leadership of Enron demonstrated holding back information from stakeholders, and manipulating numbers to make profits and when they were caught attempted to get rid of the evidence. They modeled unethical decision-making and illegal practices and their employees followed their lead, creating an unethical environment and the eventual loss of jobs and stockholders' money as well as the many legal repercussions. So, by focusing on profits and modeling unethical/illegal behavior, Enron created an unethical organizational culture. Because the leadership in Enron gave only "lip service" to their ethical codes, there was a large gap in what their code of ethics intended and the actual culture of their organization.

Fiorelli argues that, "If one merely 'checks the boxes', Enron's program may have appeared to be satisfactory. Perhaps, therein lies the problem with the current Guidelines. While Enron may have met the legal minimum, did they have a program which promoted
a culture that was committed to compliance with laws? Definitely not. Having a code of ethics filled with thou shalt nots, and a whistle blowing process that had concerns sent directly to CEO Ken Lay may look good on paper, but could easily lack substance and institutional commitment” (February 28, 2004).

Moral Obligations

An unethical organizational culture lacks beauty (Morris, 1997) and can make it very unsafe for employees to come forward and voice (Hirshman, 1970) their concerns about misconduct. When Sherron Watkins (an Enron executive and whistle blower) came forward, she had to have very damaging proof of Enron’s illegal activities as most officers in the organization turned against her (University of Ohio, Business Ethics Misconduct With Focus on Arthur Anderson Enron Case, 2002). She had to risk her employment and reputation to do the morally right thing (reporting illegal behavior), as it was not safe in her organization to report. By reporting inappropriate behavior in an unsafe environment, she became the target for retaliation and intimidation, creating a very uncomfortable work environment resulting in demotion and loss of employment. Because of this anticipated reaction, many employees will not report concerns that they have regarding ethics violations. So often, the inappropriate behavior continues until it affects many people, causing a lot of damage that can no longer be ignored. But what is the moral obligation for reporting or for that matter for leadership in organizations to create and ethical culture?

Employees should not have to sacrifice themselves, as Sherron Watkins did, or be a “moral hero” in order to make ethical decisions (Walton, Fall 2000, 329-346). They
should be praised, rewarded, supported and encouraged to give input to their
organizations, which will impact their organization positively. It is now a legal
obligation (Sarbanes-Oxley Act) for organizations to protect those who report illegal
behavior, but unfortunately many organizations will wait to make changes to provide
protection for employees until they see how the courts handle things or until they are
sued (The Economy, January 6-12, 2003).

The USSC has no way to directly regulate organizational behavior. “The
‘Guidelines’ ability to more generally deter corporate wrongdoing and promote desirable
organizational behavior depends on (1) the awareness among organizational managers,
agents, and employees of the Guidelines’ potential punitive impact, (2) the degree to
which this awareness is convincing and subsequently translated into specific actions
designed to change organizational behavior, and (3) the success of these specific actions
in ensuring that day-to-day organizational operations and decisions are conducted in
compliance with the law” (Steer 2001, 12-13).

In addition to being a legal requirement, providing a safe employment environment
seems as though it should be a moral obligation for employers, but as we can see, many
organizations do not feel that it is. The majority of organizations are left to self-police.
Depending on the individual organization and their ideas of ethics and compliance with
the Guidelines, this may or may not benefit any given company. Self-policing benefits a
company so they can easily adjust to meet their individual needs. It can be harmful if the
leadership is not supportive and feels no moral obligation to maintain an ethical culture.
Because of this outlook by many organizations, there is a need for additional systems of
accountability to ensure organizations are implementing successful ethics programs and
there is a need for additional support systems for employees at the National, State and Local level (Walton, Fall 2000, 333). This need for additional support will be discussed in more detail in Chapter V.

Conclusion

Ethics/compliance programs have been mandated by the Federal Sentencing Guidelines for Organizations (Guidelines). The Guidelines assume that if organizations implement ethics/compliance programs they will reduce their illegal/unethical behavior. As stated previously in this chapter, ethics/compliance programs alone cannot achieve success in creating ethical environments. There must be support and modeling of the program's requirements by leadership and both participation and buy-in from employees. When all leadership in an organization buy-in to, support and model the ethics/compliance programs, when the programs are implemented properly with good communication and feedback systems, when employees have input into them which creates buy-in, and when the organizational culture is able to change and programs are reviewed regularly for effectiveness and consistency, then as our case studies suggest, ethics/compliance programs can be effective and as a result reduce unethical/illegal behavior. When organizations have effective ethics/compliance programs in place, Trevino et al. determine that employees in organizations will experience an awareness of ethical/legal issues, be willing to seek ethical/legal advice, report wrongdoing, and will to take bad news to management (Trevino et al., 1999).

When organizations do not have successful ethics programs or only give “lip service” to them, then the potential for problems increases. Enron and NASA are
examples of organizations that had ethics/compliance programs in place, but their actions were contrary to their programs' regulations. With leadership in both organizations modeling behavior that was not consistent with their code of ethics or ethics/compliance programs, they created unethical organizational cultures, having unintended but devastating results.

There must be supports for employees who do report unethical/illegal behavior in organizations, especially when the organization does not support their ethics/compliance programs. Employees should not have to sacrifice themselves to do the right thing (Walton, Fall 2000, 333). Even with the amendment to the False Claims Act in 1986, which gave hefty rewards for whistle blowers who reported false claims made against the federal government (USSC, 1991), and the Sarbanes-Oxley Act (2002) that require organizations to demonstrate that they have adequate systems of protecting whistle-blowing employees, safe reporting is still a concern. Michael Mulligan, a northern Virginia-based accountant and lawyer who sells himself as an expert on the federal laws and regulations passed in 2002 states (referring to the Sarbanes-Oxley Act), "People are still standing on the sidelines...Companies will make changes after there is tangible evidence of the law's consequences—or when company executives are personally sued or prosecuted for breaking it" (The Economy, January 6-12, 2003).
CHAPTER IV

LEARNING ORGANIZATIONS

Introduction

Jim Goodnight is the CEO of the SAS Institute of Cary, North Carolina, has been among the top 10 companies every one of the five years that *Fortune* has published its “100 Best Companies to Work For”. SAS provides many services for their employees, including on-site health care, a fitness area, day care and a 35-hour workweek. SAS also is one of the largest privately owned companies in the world. It dominates the business intelligence marketplace, with its software being used by 90% of the Fortune 500. Its revenue was up 16% in the first half of 2003 from the same period in 2002. The SAS culture keeps employees content, and keeps them from leaving. On average, software companies turn over more than 20 percent of their employees each year. “At SAS, it’s around 3 percent”, and according to Stanford University business professor Jeffrey Pfeffer, “that 17 percent difference saves SAS millions in recruiting and training costs. You’re talking $60-$80 million a year conservatively” (Safer, 2003). While many other companies are going through recession and layoffs, SAS continues to grow and make substantial profits.

Goodnight believes that one of the reasons many organizations participate in illegal behavior is “pressure from Wall Street to please shareholders by delivering rising quarterly earnings that has poisoned the corporate well. There’s only one way to get
there to the penny—you have to cook the books. And walk the walk. The millionaire perpetrator walks can be found all over the evening news. Two WorldCom executives were arrested and charged with securities fraud and conspiracy. Meanwhile, the company laid off 26,000 workers. There’s top brass, like Kenneth Lay of Enron, who’s now tarnished brass. And there’s Dennis Kozlowski of Tyco, John Rigas of Adelphia—both indicted, both accused of outright theft. Given the stuff that’s going on right now in corporate America, I don’t want to be labeled as a public CEO. I want people to know I don’t have to cheat and lie and all that stuff” (Safer, 2003).

“If employees are happy, they make the customers happy,” says Goodnight, and “if they make customers happy they make me happy”. “You know, I guess 95 percent of my assets drive out the front gate every evening, and it’s my job to bring them back” (Safer, 2003).

Commenting on this attitude, Sean Ammirati states, “Too many companies that I’ve visited view people as cogs...instead of a strategic weapon. Clearly Goodnight understands that ultimately, the value of his company is the people” (Ammirati, 2003). The key to SAS’s success appears to be the value they place on, and the actions they take to support their employees and the learning environment they have created.

Section one of Chapter IV, The Learning Organization, will present the learning organization as being very important in developing an ethical organizational environment. It will define organizational learning as the process of gaining knowledge and developing skills that empower us to understand and thus act effectively within social institutions (Johnson, 2001). It will demonstrate the importance of employees knowing how the other areas of their organization function and how their decisions will impact
these other areas. It is important for organizations to create an environment where employees can continuously increase their knowledge so they can keep up with changing times, including becoming more ethical. If they are continuously increasing knowledge, they are learning and changing. When employees are learning and changing, they learn to do things differently and that would include learning and changing to become more ethical. In order for employees to internally make changes and become more ethical, they must have an organizational environment, like a learning organization, that supports this change. If organizations do not promote learning in their environment, they will have challenges and resistance in making changes when it becomes necessary to change.

Section two, Systems Thinking, the first characteristic of a learning organization, will expand on the idea of action-outcome relationships. By using systems thinking, organizations can augment and change the ordinary ways employees think and talk about complex issues by using feedback processes. By using feedback, employees can see how their choices influence others in their organization, good or bad. When employees have increased awareness, they will be able to make better decisions, because they have all the information and knowledge requisite to make the best choice for the organization. If employees do not consider others when making decision, they cannot make the best most ethical decision for the whole.

The third section, Personal Mastery, the second characteristic of a learning organization, demonstrates how striving for personal mastery or continuous improvement can assist in promoting change. When employees are striving for personal mastery, they are continuously changing in order to improve themselves. When employees are changing, they can acquire new skills, including learning how to make more ethical
decisions. Because personal mastery encourages continuous improvement and change, it is a vital component when attempting to make cultural changes. If employees are not striving to change and improve and instead continue to do things the way they always have they are not making necessary changes to become more ethical.

The fourth section, Shared Vision, the third characteristic of a learning organization, uses a case study to demonstrate the importance of organizations having a shared vision or goal. If organizations have a shared vision (Senge et al., 1994) and are unified (Morris, 1997) and are working together to achieve their goals, they will experience more success. If organizations do not have a shared vision, they may not be able to accomplish their desired outcomes, as they will be working toward different ends.

The fifth section, Dialogue, or the fourth characteristic of a learning organization, presents Richard Nielsen's three different types of dialogue or communication (single-loop, double-loop and triple-loop). Nielsen describes each type of dialogue and explains how they are used in organizational communication. The type of dialogue and feedback used in our organizations can determine if we will be successful in communication and in making needed cultural changes to become more ethical. If organizations practice effective dialogue processes with their employees, then there will more openness and better communication of information in their organization. If there are not dialogue processes to encourage communication, there is no way of knowing if employees truly understand what is expected of them, thus inhibiting change.

The sixth section, Perceptions, the fifth characteristic of a learning organization, shows how our assumptions that we carry of how we see things can impact our behavior. The case of Ford Motor Company will be used to demonstrate how perceptions can
influence behavior and decision-making. The two main aspects that influence our perceptions are reflection and increased awareness of how we form our ideas. If we have time to reflect, we can look at what was good or bad about decisions we made and then make necessary adjustments for improvements. If employees are not aware of how their perceptions impact their views, they cannot reflect on them and change them when they are inaccurate or unethical.

The final section, Critique of Learning Organizations, presents the views of Will Rifkin and Liz Fulop and their concerns with using the learning organization model to make changes in organizations. They express concerns with the inconsistency of definitions of what learning organizations are and feel that learning organizations force everyone to think the same, drowning out the individual voice. Their arguments will be reviewed and counter-arguments will be made to support the processes of the learning organization.

The Learning Organization

The Ethical Edge describes organizational learning as “the process of gaining knowledge and developing skills which empower us to understand and thus act effectively within social institutions such as business, government departments, schools, or charities” (Johnson, 2001). When we act effectively in our organizations, we are making progress, meeting goals and able to make appropriate changes in our organizations. Duncan and Weiss are quoted in “Organizational Learning and Learning Organizations” as defining organizational learning as the “process within the organization by which knowledge about action-outcome relationships and the effect of the
environment on these relationships is developed” (cited in Malhotra, 1996). Knowledge about action-outcome relationships is valuable so we can determine if our actions will create benefits or cause harm.

The formerly mentioned authors have defined organizational learning as acting effectively, being aware of action-outcome relationships and promoting a culture of change. While these definitions vary, they all describe essential components needed when making changes in organizations. If we are not acting effectively, we are not meeting goals. If we are not aware of how our actions impact others, we cannot make the best choice for the organization. If we do not promote change, we cannot make the necessary organizational changes to create and ethical environment. An environment that promotes organizational learning then is necessary if we want to accomplish the formerly stated criteria.

While organizational learning is the process, the learning organization is the structure that promotes a culture of learning, embracing change, uncertainty and complexity, and that is able to respond and adapt to changes (Johnson, 2001). When we promote organizational learning, we are able to continuously test and experience and then transform these experiences into knowledge; this knowledge will then be shared and accessible to the whole organization (Senge et al. 1994, 48). The five major components of the learning organization, systems thinking, personal mastery, shared vision, dialogue and perceptions will be discussed in the following chapters.
Systems Thinking

Systems thinking is a discipline for seeing the whole of how a system works and how the parts of that system or organization interact. It also demonstrates that any change in the organization by one department will affect others in the organization in some way (Terziovski et al. 2000, 23-32). Systems thinking teaches that managers and employees must look at the whole organization to make the most ethical and beneficial choices (Senge et al. 1994, 91). If we do not consider other areas of our organizations when making decisions, we will not be able to determine what impact our decisions have until after the decision is implemented and problems occur. Art Kleiner perceives a system as a whole whose elements continually affect each other over time and operate toward a common purpose (unity, Morris, 1997). The structure of a system is the pattern of interrelationships among key components of the system (cited in Senge et al. 1994, 89-92).

Systems thinking culture has these characteristics: (1) employees have extensive interactions with others where they see each other as internal customers and suppliers, (2) results and processes are measured and managed, (3) systems are continually analyzed and improved, (4) customer and process needs dominate decision-making, (5) cross-functional teams at all levels are convened frequently to address critical business issues, (6) employees are rewarded for their organizational contribution, and (7) information of mutual interest is routinely shared among employees (Terziovski et al. 2000, 23-32). Numbers two and three are also a requirement Guidelines. By using systems thinking organizations can augment and change the ordinary ways employees think and talk about complex issues because they are based on the theoretical concept of the feedback process.

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These feedback processes distribute influence and information to organizational members over time, creating employees with knowledge of how the decisions they make impact their organization (Senge 1994 et al., 88).

When employees have an awareness of their interdependence on others, the need for collaboration occurs (Senge et al. 1994, 91). If employees can see how their actions impact other areas in their organizations, this will influence their decision-making. They will be able to measure if their decisions will have a positive or negative impact on others and see how making decisions without all the necessary information can lead to unethical decision-making causing harm to other departments. If organizations do not involve employees in processes that allow them to see the entire organization they will make decisions without having all the pieces necessary to make the best choice. If departments are spending their time trying to fix problems caused by others in their organization, they are less likely to have the time to adjust to other changes when they occur. On the other hand, if they have awareness and enough knowledge they can make the best choices, assuming these are also ethical decisions, for the organization.

When employees are able to know how their decisions and contributions impact others, whether they cause benefit or harm to others in their organization, this awareness allows them to make better, more ethical decisions. When employees make better choices that benefit more areas of the organization there will be less internal conflict. When there is less internal conflict, employees are freer to handle other changes that arise such as new technology advances and work on personal mastery.
Personal Mastery

In Chapter I we discussed cultural change (Hartman) and the challenges one can encounter when trying to change behavior and culture. We also discussed self-deception (Covey) and the dangers this can lead to as self-deception puts blame on others, relieving us of any responsibility and so pushing reality farther from our perception. When we participate in self-deception, we spend much of our time justifying and defending our behavior and since we did nothing wrong there is little room for improvement on our part (Covey 2000, 10-16). Personal mastery moves us in the opposite direction from self-deception and is a term used by Senge et al. Personal mastery is discovering our strengths and acknowledging our weaknesses in an ongoing effort to improve our individual capacities. So, if we make mistakes we need to acknowledge them, correct them and improve, and not defend them. When we are continuously striving to improve ourselves, gain new skills and knowledge, and share our findings with others around us, we come closer to achieving personal mastery (Senge et al. 1994, 193-194).

Personal mastery aligns and develops the capability of a team by building on the talents of individuals and using the unarticulated knowledge of employees (skills they have developed other than those needed at their current position). It is important to work as a team to encourage sharing of knowledge and information. “A key benefit of having different types of individuals with diverse skills, experiences, and specializations in an organization is that there is a potential for multiple pieces of information, truth, [and] insight to come together in addressing an ethics issue or making a decision” (Nielsen 1996, 73). When employees have more knowledge or information, they can make better choices, having all the necessary knowledge to make a good ethical decision.

97
members of organizations share additional skills developed over the years authority can be delegated to them and responsibilities are shared, thereby reducing the burden for managers. Terziovski et al. state that this utilization of aptitude, “is more than just achieving a set of competencies and skills, but is the focusing on ultimate desires, approaching life creatively instead of reactively” (2000, 23-32). Because we are continuously changing and striving to improve, personal mastery assists in promoting change.

When employees are striving for personal mastery, they are changing with the goal of increasing their knowledge and improving their skills. While employees are changing, they can acquire new skills, including learning how to make better, more ethical decisions. If they learn to make more ethical choices and acquire better decision-making skills, they can adapt more quickly to change and find new, better and more ethical ways to accomplish tasks. If employees can change and find new ways of doing things and do them ethically, they can increase the ethical decision-making in their organization.

Toyota Motor Company of Australia is an example of an organization that taught and encouraged personal mastery. Toyota initiated a range of training and developmental strategies to involve employees in organizational activities while increasing their skills. They created modules to guide shop floor employees through a progression of levels from team to group leader. Tuition expenses for continuous improvement techniques were provided. Toyota promoted team building as a way of communication and participation. Employees were also encouraged to provide input into their company by contributing ideas. Of 4,729 suggestions made in 1990 by employees, 70% were implemented (Terziovski et al. 2000, 23-32). By involving employees in the decision-
making process and encouraging self-mastery, Toyota placed value on their employee’s role in their organization, increased their employee knowledge, and taught employees to collaborate and share so they could see what others do in their organization. By using so many of the employees’ ideas and increasing their skills, Toyota demonstrated that their staff is important and encouraged them to work at their own personal mastery which promoted changing behavior in their organization. This created buy-in and loyalty; they worked toward the same goals and had a shared vision.

Shared Vision

Another characteristic that is necessary to have success in developing a learning organization is having a shared vision or goal. The task of the leadership in an organization is to share the vision for the organization with the employees. Without a vision, there is no sense of direction (Terziovski et al. 2000, 23-32).

Pacific Dunlop Bedding is an organization that focused on implementing changes to create a learning environment. Their vision was to have more satisfied customers, better beds, and best practice. They communicated their vision to all of their sites geographically spread around Australia. Building a shared vision resulted in organizational resolve, conviction, commitment and clarity of intent. Pacific Dunlop accomplished their goal by transitioning from a company where employees were not involved to one where they were important in determining the direction the company was going. They created a self-assessment matrix to plot status in terms of change and knowing or being aware of what best practice was. So, they provided tools for the employees to be able to measure how they were doing. By including the employees in
these changes, the employees were able to gain an awareness of what was expected and how they impacted others, creating buy-in to the changes and in their organization. Pacific Dunlop also implemented extensive management information systems, which drove their continuous improvement program, necessitated complete change of approach toward employees.

Pacific Dunlop was successful in sharing their vision with employees in their organization and this assisted them in making changes in their organizational culture (Hartman, 1996). If Pacific Dunlop had not used this shared vision approach with their employees and allowed them to participate in the change process, employees would not have been able to see how the changes were beneficial, and would not have been fully cooperative—and outcome which then would have prevented the change from producing the desired result (Terziovski et al. 2000, 23-32). Because they had a shared vision, they were able to create a state of unity (Morris, 1997). Change is most successful where people work together to achieve a shared vision through communication.

Dialogue

Without good communication, it would not be possible to utilize the characteristics of a learning organization (systems thinking, personal mastery, shared vision, dialogue, perceptions). South Pacific Tyre is an organization that used the process of dialogue to promote team learning and communication. Leadership at South Pacific Tyre saw communication as a critical factor to successfully develop a learning organization, or for that matter to make any organizational change. Their communication processes included listening and feedback through the process of dialogue and efforts were made to ensure
that perceptions of the information shared were accurate. South Pacific Tyre did this by having employees demonstrate or articulate their understanding back to the managers. When employees were included in the process and understood what was expected they were able to successfully do what their organization asked of them. There are many ways to communicate, but dialogue is recommended by Senge as one of the most effective ways to do this (1990).

Dialogue’s purpose is to create a setting where people openly share ideas and views of how they perceive their role in the organization (or use their voice, Hirschman). In the dialogue process, different views are expressed, allowing participants’ eyes to be opened to others’ ideas and visions in the organization. David Bohm states, “as we move through the dialogue progression, participants perceive that the climate or atmosphere of the room changes and gradually they see that their collective understanding is changing” (cited in Senge et al. 1994, 360). In the dialogic process, employees learn why others make the decisions they do and are able to share their methods. Once methods are shared, there is the opportunity to reflect, ask questions, clarify and give feedback. Learning organizations are all about this process of dialogue, a reflective learning process (Senge, 1990). “Through dialog within diversity we can learn from each other, learn from the dialogic process, and help each other and our organizations develop ethically” (Nielsen 1996, 73).

Nielsen discusses three different types of dialogue in *The Politics of Ethics: Methods for Acting, Learning, and Sometimes Fighting, With Others in Addressing Ethics Problems in Organizational Life* which can be used in organizations to communicate. “In single-loop dialogue politics one is open to learning about more effective actions for
achieving ones driving values, but is not open to reconsideration of those driving values” (Nielsen 1996, 6-7). Single-loop dialogue is most often done in the form of forcing cooperation with ethical behavior. An employer would give instructions and the employee would be expected to follow them without question, the employee not being able to challenge what their boss considers ethical. The leader being open to feedback only that will assist them in forcing compliance with their view of what is ethical. Single-loop does encourage a quick response and immediate action but does not provide opportunities for understanding or learning about ethical behavior. Nielsen suggests that this method is very limited and should only be used when there are not options of more peaceful, cooperative or constructive communication (1996, 35-54).

Double-loop dialogue is the next communication method that Nielsen reviews. In double-loop dialogue the positives and negatives of a situation are reviewed, a specific leader guides the discussion presenting their impressions and ideas, then input is encouraged from others. Double-loop dialogue encourages cooperative effectiveness (working together to accomplish a goal) and mutual ethical learning (learning the same ethical concepts). Double-loop dialogue can sometimes build or sustain an ethical organizational culture. But there are some circumstances when there is pressure to conform and this can lead to agreeing, after the double-loop dialogue process, with the person that is most powerful, possibly leading to a decision that may be uncomfortable and even unethical (Nielsen 1996, 73-105).

An example of this can be found at NASA before the launch of the Space Shuttle Challenger. The engineers at Morton Thiokol (the company contracted to make the shuttles o-rings) reviewed the risk of launching at temperatures below 53 degrees and
determined that it was not safe. According to Nielsen, the engineers used double-loop
dialogue to explain the positives and negatives, presented their conclusions (that it was
not safe to launch) and solicited input. NASA managers were very upset that they were
given this information the evening before the launch and applied pressure on Morton
Thiokol to change their recommendation, which they did, resulting in an unethical
decision (to launch at temperatures too cold for the o-rings to properly seal), which led to
disaster the deaths of seven astronauts (Nielsen 1996, 73-105). So, when a group that is
more powerful disagrees with the conclusions of the double-loop dialogue process this
method can still result in unethical decision-making.

The third method of communication is triple-loop dialogue, where “we not only
question the effectiveness of instrumental actions and the appropriateness of driving
values, but also the tradition system within which these are shaped and embedded”
(Nielsen 1996, 7-8). Triple-loop dialogue uses friendly criticism, relationship building
and voluntary experiments to reform biases within a shared tradition. Triple-loop
dialogue can often be effective in changing certain cultural aspects or traditions of an

Cadbury is an example of change through the triple-loop dialogue process. Cadbury
experienced some dramatic organizational changes during a time of political unrest
(1960’s) including national union pressure. As a company tradition, Cadbury had always
used consensus by employees and managers to make organizational decisions.
Technology was advancing and the United Kingdom was changing to the metric system.
Cadbury was forced to update their equipment to keep pace with competitors. With
updated equipment, they would need fewer employees and were looking at closing one of
their plants and having to relocate employees and possibly lay-off workers. In this time of crisis, they again relied on their company tradition demonstrating the value of employees and using the method of consensus to make the critical decisions (Nielsen 1996, 112-135).

Adrian Cadbury, the CEO of Cadbury in the 1960’s, believed that, “In any kind of institution, what you’re after is getting the maximum motivation. To do that you involve people as much as you can and you are as open as you can be…my great grandfather who founded the Cadbury business…had a belief in achieving, as far as one can, agreement by consensus” (Nielsen 1996, 124). Instead of having management make these decisions (to update equipment and close a plant) Cadbury used the process of participative management, which included managers, engineers, shop stewards from both of the factories and two older workers who understood and valued Cadbury’s traditions. The decision that was made was unanimous. The group’s decision was that one plant must be closed and machinery should be changed to metrical thereby reducing half of the workforce. Benefits packages for employees that had to be laid off were offered and they were given preferential rehiring (Nielsen 1996, 112-135).

Cadbury used triple-loop dialogue as they presented the problem that they were facing to their employees. They respectfully invited employees from various levels to voluntarily participate in the consensus process. They used their traditions as a guide but also reviewed and changed one of them. Their tradition had always been to provide employee security. In light of the circumstances, they had to modify this tradition as they determined that the quality of employment with too many workers would be poor (Nielsen 1996, 112-135). So using triple-loop dialogue can modify traditions or culture.
It is necessary for an organization to share its plan or outlook with employees in meaningful, manageable and measurable terms through training, tools and evaluation. Communication through dialogue is a critical factor for success when making changes. Managers must listen to feedback from employees to know how others perceive things. Managers must also realize that filters are everywhere; just because your message was clear in your mind does not mean that it is clear for everyone to whom it may have been intended. This is when the need for dialogue and feedback come into play to make sure everyone has a shared understanding (Appelbaum and Gallagher 2000, 47).

A learning organization is all about dialogue or the flow of ideas throughout the organization (Senge et al. 1994, 40-59). When employees see problems, they can report them in a timely manner and when these problems are addressed, employees are able to influence behavior in their organization, preventing future problems. The quality of the dialogue we utilize invariably influences our success in making changes. Our personal outlooks can influence our dialogue processes, so we must make sure we are aware of one another’s perceptions as well as our own.

Perceptions

Perceptions (or ‘mental models’ as Senge et al. label them) are images, stories and assumptions which we carry in our minds of how we view ourselves, others, institutions and every aspect of the world. The two main aspects that influence our perceptions are reflection, or slowing down our thinking processes to become more aware of how we form our ideas, and inquiry, or holding conversations where we openly share views and develop knowledge about each other’s assumptions (Senge et al. 1994, 237). We then
make inferences about this information that help us evaluate how we view the world; make decisions and act on the assumptions we make. Inference starts with observable data that we select from experience, and to which we apply a meaning. We then make an assumption from that meaning and draw conclusions and beliefs, which in turn influences our actions (Senge et al. 1994, 243). If we misinterpret data, our assumptions and conclusions can be inaccurate. If an entire team of people working together interprets data differently and attempts to solve problems in various ways, many obstacles will interfere with progress.

To illustrate: Ford Motor Company was faced with creating an even better Lincoln Continental car with better efficiency and lower cost than they had the year prior. They decided to use some of the systems thinking ideas (looking at the whole organization) to assist with meeting their goal. They initially had a three-day offsite meeting and followed up with monthly meetings, to expose employees to ideas of systems thinking and organizational learning. They received guidance from leaders in organizational learning Peter Senge and Dan Kim. They focused on issues that the team members thought were problems with the company, which facilitated teaching team members how to talk to each other and break down the barriers and assumptions they had made about others over the years. When they learned how and why they made decisions, through their assumptions and conclusions, they were able to open up to the idea of change (Senge et al. 1994).

After these meetings had been going on for a while at Ford Motor Company, because of consistency, workers perceptions changed in the organization and they were no longer afraid to call and report problems or inappropriate behavior as they had been in the past.
Better communication allowed problems to be addressed sooner and save the company money by fixing problems early. Communication also took place between all the different levels of management and employees on the team. So, through the process of dialogue Ford was able to successfully change perceptions, increase communication, and encourage employees to report concerns early thereby preventing many future problems. And because of these new skills, they were able to make changes to meet their organizational goals (Senge et al. 1994).

Critique of Learning Organizations

While the components of the learning organization have been useful to many organizations, as demonstrated by the case study examples, there are still some criticisms of this method. Will Rifkin and Liz Fulop, Professors in the Department of Management at the University of Wollongong Australia, are not highly impressed with the concepts of the learning organization. Rifkin and Fulop have done extensive research on organizational management and learning organizations and have published articles and books on this topic. They argue that there is really no consensus among the professionals on what organizational learning is, how organizations actually learn, and what a learning organization might look like. They believe that learning organization theory lacks a clear and consistent account to back up the claims that it is worth implementing this type of environment. With constant changes and upgrading in technology and employees transitioning from positions of physical labor to those that require mental labor, Rifkin and Fulop believe that these changes would be eased if the idea of a common trajectory were conceded. With one common trajectory for all organizations to use as a guide they
believe it will be easier to define learning organizations and make changes easier for managers, as everyone will then be on the same path and have a shared understanding of what a learning organization is (Rifkin and Fulop 1997, 135-148).

Peter Senge et al. acknowledge that there are different types of learning and differences in the interpretations of organizational learning. In the first section of this chapter, several definitions of organizational learning were presented including acting effectively, being aware of action-outcome relationships and promoting a culture of change. Each of them including components that are vital for success in creating a learning organization. Senge et al. present their learning organization approach as one that they have put into practice and that they have had success with in implementing change in many organizations. It appears to be almost impossible to have a common trajectory for all organizations as the functions they serve are so widespread. Through laws that govern organizational behavior there are guidelines provided that are the same for most organizations. The Federal Sentencing Guidelines for Organizations prescribe a common trajectory in the United States. But even if there was one common guide for all organizations to follow, it might not meet the needs for all organizations. It is important to have guidelines but just as important is an organization’s ability to look for additional support, such as the learning organization methods and ways of doing things that meets their individual needs. Peter Senge et al. present options and allow organizations to utilize the methods that will benefit their individual needs. Allowing management and employees together to determine what is the best fit for their organization is also important.
Rifkin and Fulop's next argument states that organizational learning forces everyone to think the same and "acts to silence and marginalize certain voices instead of letting them be heard as a legitimate contribution" (1997, 135-148). They believe that this occurs because the focus is on teamwork, which they believe "negates the idea of multiple voices" as "the team naturally speaks louder and more authoritatively than any one individual voice" (Rifkin and Fulop 1997, 135-148).

The purpose of dialogue in groups is to come to a shared understanding and to encourage participation from everyone and the development of relationships to gain insight into why we make the decisions and conclusions we do about others and certain situations. Senge et al., Nielsen, Malhotra and Terziovski are not stating that everyone learns the same nor is there benefit in everyone thinking the same. Having the same values and goals, yes, but they also require utilizing all the different skills and ideas of employees in order to accomplish those goals. So, everyone does not have to think the same or agree on everything, but knowing how others are perceiving things provides additional understanding. When employees see that others assess situations and make decisions in different ways than they do, employees can understand why they make different choices and have different outcomes. When employees have increased awareness of how others came to their conclusions, employees can understand how others are thinking and consider that when making their own decisions. With this awareness of others, they can learn different ways of making decisions and in turn make choices that are more beneficial to the entire organization. So, teamwork groups encourage everyone to participate and allow the team to come to a shared understanding.
of an organization’s goals. The fact that people think differently benefits these work
groups, as members are able to have increased knowledge and awareness.

Rifkin and Fulop’s third objection expresses concern with the pressures on managers
to learn new approaches and states that they can be overwhelming, as “they are expected
to integrate these management ideas into their own individual schemas and belief systems
and then help translate the ideas into organizational schemas and collective responses that
indicate learning that creates the image that they are working in a learning organization or
have engendered organizational learning”. They believe this much pressure should not
be put on managers (Rifkin and Fulop 1997, 135-148).

In a learning environment, whether the organization is implementing ethics programs
or other changes, managers as well as employees will have to buy into the new
organizational changes and make adjustments. But the learning organization as a whole
complements and works with other management strategies. With the constant changes in
the market and technology, organizations including managers and employees do not have
the option not to adjust to stay competitive. Government organizations are continuously
making changes with the passage of new laws that require organizational change. If there
is support and trust from leadership in the process of making changes, managers do not
have to be overwhelmed. And if the leadership asks for employee input when they make
changes, they will get additional support from the employees and not have to carry the
burden themselves. It seems that with their employees acquiring new knowledge and
skills that the employees would be able to take on more responsibility and have the tools
and guidelines from an ethics program to make good choices, thus relieving the managers
of some tasks.
A fourth argument that Rifkin and Fulop make is that they believe the tools Senge et al. use are manipulative in order to get employees to cooperate. Rifkin and Fulop also imply that organizational learning is just another way to control people (1997, 135-148). They believe organizational learning does this by eliminating politics and special interest groups in the work place as work groups take away from individuality (Rifkin and Fulop 1997, 135-148).

Many of the tools that Senge et al. propose are actually quite similar to those used in therapy to assist people develop better relationships. The people involved in these work groups know that they are meeting together to create more cohesive work relationships and to improve what their organization does. These tools help people see more than just their point of view and understand their individual thinking processes better. This is not manipulative but good essential skills to have that are beneficial in all aspects of life, not just in business. If people are not able to see others’ ideas or points of view, they may alienate others and exclude important information from the decision making process. If one cannot analyze their own thinking patterns or reflect they will not be able to adjust as easily to new ideas and changes. These are not manipulative techniques but highly beneficial tools to assist employees when adjusting to change (Senge et al. 1994).

Organizational learning actually gives employees more choices, knowledge and awareness. The intent is not to control but provide skills and knowledge to all levels of the organization so they have more independence through their newly acquired skills to better handle changes that will impact the organization. These would be powerful techniques if they could cause everyone to think the same. The work groups do not attempt to have every one think the same but to have shared vision or goals, creating
unity (Morris, 1997) within the organization. If an organization does not share a vision or goals, this will limit their success, as they will be working toward different goals making progress difficult. The learning organization actually creates a shared awareness and knowledge, and does not require everyone to think the same. It encourages new ideas and creativity. In learning organizations, members are encouraged to give their input and participate in dialogue to improve communication. Those who normally dominate are asked to give way to those who are not as verbal because their comments are seen as just as valuable. When the process is successful, new ideas will be generated; communication that is honest and open will occur, and relationships will improve positively affecting employees’ relationships and understanding and creating a smoother running organization with insight and knowledge better able to adjust to change and become more ethical (Senge et al. 1994; Nielsen 1996, 112-135).

Conclusion

In this Chapter, we discussed the value of employee input in organizations. The learning organization and its characteristics were presented as being very important if there is to be successful ethical change in organization culture. Learning organizations focus on systems thinking, which allows employees to see how all the parts of their organization interact and what their role is and specifically how their choices impact others in the organization. If employees do not consider others when making decisions, they cannot make the best most ethical decision for the whole. Personal mastery allows us to acknowledge our weakness and challenges employees to utilize all skills that have been acquired over the years. If employees are not striving to change and improve and
continue to do things the way they always have they are not making necessary changes to
become more ethical. A shared vision by all in the organization provides focus and the
ability to work together toward a common goal instead of several areas trying to
accomplish different goals in different ways. If they do not have a shared vision, they
will be working toward a different end and not have the desired outcome.

Dialogue is the essential process of communication that takes place to get input,
share ideas, learn how others perceive things and increase employee awareness and
understanding. If there is not a dialogue process to encourage communication, there is no
way of knowing if employees truly understand what is expected of them. In single-loop
dialogue, leadership is open to learning about ones own driving values, but not open to
reconsideration of those values (Nielsen 1996, 6-7). Double-loop dialogue reviews the
positives and negatives of a situation, and then input is encouraged from others. In triple­
loop dialogue, the effectiveness and appropriateness of our actions are reviewed as well
as our traditions, which shape our perceptions (Nielsen 1996, 7-8). If employees are not
aware of how their perceptions impact their views, they cannot reflect on them and
change them when they are inaccurate. Through the process of dialogue with the support
of systems thinking, shared vision and personal mastery, culture can be changed.
Because learning organizations assist in cultural change they would seem very beneficial
in creating organizations that are more ethical.

In this chapter, we also reviewed Rifkin and Fulop’s views. They believe the
definitions of learning organizations are very vague and not useful and that the intent of
the learning organizations is to control. They believe that learning organization theory
lacks a clear and consistent account to back up the claims that it is worth implementing
this type of environment and that there should be a common trajectory for all organizations to follow so they will know what organizational learning is. While it is important to have guidelines it is also important for organization’s to be able to look for additional support, such as the learning organization method and ways of doing things that meets their individual needs. As was argued learning organizations actually allow more freedom and input from employees. When organizations utilize the learning organization model, they improve their communication through employee involvement.

When employees are involved in organizational change and the day-to-day functions of organizations, they can have influence in their organization. This influence can keep organizations ethically on track. The next chapter will discuss employee influence in more detail as well as the importance of employee support systems and organizational peer systems to keep organizations ethical.
CHAPTER V

SOLUTIONS

Introduction

"After nearly 14 years working in the casino cage at the Castaways, she (Pamela Calhoun) spotted trouble for months before its abrupt closure on Jan. 29 (2004). Calhoun and other former employees I've interviewed wonder why it took so much longer for state and federal officials, people with the power to supervise the faltering gambling hall, to step in. She believes swifter action might have prevented a lot of misery for hundreds of dumped workers," states John L. Smith of the Las Vegas Review Journal. "As if losing their jobs wasn't traumatic enough, former employees now contend Castaways management failed to make payments to the company 401(k) retirement account, Social Security and health insurance plan. All three fall under the purview of supposed federal watchdogs...The awful result: The IRS now has frozen workers' 401(k) accounts, money many were counting on using to survive between jobs. Social Security contributions were unpaid by management, and as a result, dozens of W-2 forms are inaccurate...In short, they've been screwed. And no one in authority stepped in to help" (Las Vegas Review Journal, February 22, 2004).

Reporting for the Los Angeles Times and printed in the Las Vegas Review Journal, Jube Shiver Jr. reports on recent events in the Microsoft organization. "European regulators on Wednesday fined Microsoft Corp. a record $613 million and imposed broad restrictions on the way it develops and sells software, a stinging defeat for a company that has spent nearly two decades battling accusations of anti-competitive behavior...Wednesday's fine was the highest levied against a company by the commission [European Commission], but the practical implications of the ruling could take years to sort out as the case moves through the European
court system...Although the fine amounts to less than an average week’s worth of sales for [the] Redmond Wash.-based Microsoft, the ruling opens the door for private antitrust lawsuits that could cost the company additional hundreds of millions of dollars.” “Microsoft has abused its virtual monopoly over the PC desktop in Europe,” states Mario Monti the European Competition Commissioner. He believes that, “Dominant companies have a special responsibility to ensure that the way they do business does not prevent competition...and does not harm consumers and innovation.” Jaap Favier, a technology analyst for Forester Research in Amsterdam, believes that, “Mr. Monti is looking at the longer term; he is setting a framework in which the future of Microsoft can be regulated...But Microsoft is hoping to buy time, like it did in the...Web browser situation in the United States, and make the status quo last as long as possible. If they are forced to open up Windows [the sanctions] could have an impact” (Las Vegas Review Journal, March 25, 2004).

These two examples of organizations participating in illegal/unethical behavior—Castaways not paying Social Security, 401 (k)’s and health insurance, and Microsoft monopolizing the market for many years by making products that are not compatible—are just two of the most recent examples of organizational misconduct, the former case was reported in February 2004 and the latter in March 2004. Many other cases of illegal/unethical behavior by organizations have occurred in the last year (2003), as demonstrated by Jim Goodnight’s comments in his interview with “60 Minutes” Morley Safer: “There’s top brass, like Kenneth Lay of Enron, who’s now tarnished brass. And there’s Dennis Kozlowski of Tyco, John Rigas of Adelphia—both indicted, both accused of outright theft” (2003). The regulations or laws that are currently in place do not seem to deter the leaders of organizations from taking advantage of their opportunities, even if it means participating in illegal/unethical behavior.
The intent of the passage of the Guidelines in 1991 was to reduce illegal/unethical conduct in organizations after the required implementation of ethics/compliance programs by organizations (as discussed in Chapter II). As established in the preceding chapters, there are many shortcomings with the current laws and regulations meant to guide organizational behavior and it would be beneficial to achieve a more in-depth look at the actual impact of the Guidelines in reducing illegal/unethical behavior. As evidenced by the many cases of fraud, deception and theft that continue to make the headlines of our news (many of these are organizations once thought to be trustworthy), there are growing concerns that the promulgation of the Guidelines has not been enough to deter organizations from participation in illegal activities. Because of this, there is a great need for additional support systems for employees who do report inappropriate behavior and more extensive monitoring or organizational compliance with the Guidelines and a system of rewards and sanctions to ensure that organizations are promoting ethical behavior (Walton, Fall 2000). Organizations also need to be aware of the key factors missing from the Guidelines (leadership example and employee involvement), as they will need to access additional guides to implement and maintain successful ethics programs.

The first section of this chapter will review the arguments and conclusions from the four former chapters.

The second section, Support Systems, will address the challenges of getting organizations to comply with laws that regulate organizational behavior and those that are meant to protect employees who report violations. It will also make arguments and recommendations for the types of support systems that need to be in place internally to
allow safe reporting without intimidation or retribution. Because it is not safe in many organizations to report inappropriate behavior, internal and external support systems for employees are needed.

The third section, Additional Measures to Encourage Compliance, will present the idea of creating a comprehensive report that provides information to the public on organizational behavior with the intent of increasing awareness and knowledge of organizational behavior. This information will include positive and negative reports of organizational behavior, specifically illegal/unethical behavior, cooperativeness of the organization when sued, penalties, treatment of whistle blowers as well as employee satisfaction, benefits provided, positive awards and achievements by the organizations, etc. Having all this information in one report and on each individual organization available to the public will allow stakeholders and those looking for employment to scrutinize organizations and determine which they will patronize or to which they will make application. Those organizations that rank higher will attract more customers and better employees and the lower ranking organizations will have more of a challenge keeping their employees and customers, as they may choose to exit (Hirschman, 1970) in hopes of better services or treatment. The intention here is to motivate those organizations that do not promote ethical behavior, employee involvement or have proper ethics programs to do so in order to attract good employees and other stakeholders in order to stay competitive. If organizations can attract better more qualified employees and keep these employees content, this will result in great benefits to the organization.

The fourth section, Employees as a Checks and Balance System, will present and methods that organizations can use to encourage employee involvement and ultimately
keep their organization on track ethically. If organizations teach employees how to make ethical decisions, support reporting of problems, and have open communication and feedback as demonstrated by the learning organizations, then employees can have influence and through this influence keep their organizations ethically on track.

The fifth section, Final Recommendations, will review what components organizations must have to develop and maintain ethical organizations, including: ethics programs that follow the Guidelines recommendations, leadership example, employee involvement and feedback, employee support systems, learning environments and outside accountability to the community. To be successful in creating and maintaining ethical environments all of these components must be utilized by employers/employees to create buy-in, longevity, satisfaction with employment environment, etc. With these factors in place and utilization of employees, organizations will be able to create ethical organizational environments with employees acting as a check and balance system.

Review of Chapters I-IV

From Chapter I of this thesis, we learned that organizational ethics is the study of ways organizations influence members' behavior (Horvath, 1995). Organizational ethics works on the whole of the moral culture of the workplace. The influence that organizational culture has on its members is very strong and can create ethical or unethical cultures. Edwin Hartman explained that 'culture' includes laws, rules and systems as well as language, history, formal and informal practices, beliefs and rituals. And because culture has so many different facets, it is very difficult to change (1996). Schwartz (1990), Covey (2000), and Adams and Balfour (1998/2004) all presented
behaviors that organizations and individuals can participate in to create unethical organizational cultures. Hirschman presented actions we can take (exit, voice, loyalty) when we acknowledge that there is unethical/illegal behavior in our organizations (1970). We also learned that organizations must have certain characteristics (trust, beauty, goodness, unity) to be able to maintain ethical organizations (Morris, 1997). It is of great importance for organizations to know how their cultures influence employee behavior. If organizational cultures promote trust, encourage reporting of problems, and support and model ethical decision-making, they will prevent many future problems or illegal behavior, creating organizations that are more ethical. If organizations teach by example, defending bad decisions, putting blame and responsibility on others, punishing those who speak up, and justifying their inappropriate actions then they will have unethical organizational cultures leading to illegal behavior and unintended harm to others. When organizations are aware of the type of environment they support they can address problems and make changes to encourage more ethical decision-making and a more ethical environment.

Chapter II revealed the shortcomings of the Federal Sentencing Guidelines for Organizations. The Guidelines do not have the ability to enforce their mandate for organizations to implement effective ethics/compliance programs nor are they able to act as a strong deterrent for organizations to stop participating in illegal behavior. The Guidelines only come into play when organizations are sued and sanctioned for illegal behavior (less than 1% per year) (Murphy 2002). The Guidelines also neglect to address the essential role of leadership example and employee involvement in implementation of ethics programs. If leadership example and employee involvement are not used in the
implementation of ethics/compliance programs organizations will not experience buy-in from their members and will not have success in changing their organizational culture to be more ethical. Because of the Guidelines' shortfalls, organizations need to look beyond the Guidelines in order to implement successful ethics/compliance programs. The learning organization discussed in Chapter IV is an example of a method that would utilize leadership example and employee input (in addition to the Guidelines recommendations) to successfully implement and maintain an ethics/compliance program.

Chapter III addressed and expanded on the importance of employee involvement and consistent leadership in order to successfully implement ethics/compliance programs. Chapter III also addressed the challenges organizations encounter when leadership only gives "lip service" (state they support but actions are contrary) to their ethics/compliance programs. Because organizations continue to participate in illegal conduct and the ability of the Guidelines to act as a deterrent is limited, there is a need for increased monitoring of organizations to ensure they are making efforts to create safe and ethical employment environments. This chapter concluded that the present research on the Guidelines impact demonstrates that they are unable to provide proper support to employees who report unethical/illegal behavior in unethical organizations. In order to protect employees there is a need for additional support systems to be created internally as well as at the National, State and Local level, to fill this gap for employees who decide to report inappropriate behavior in unsupportive work environments (Walton, Fall 2000, 333).

Chapter IV discussed the characteristics of the learning organization that encourage employees to have openness in communication (dialogue), trust, shared vision, feedback,
and continuous expansion of knowledge (personal mastery) and being aware of how their actions impact the organization as a whole (systems thinking). With additional insight and awareness, employees are able to consider others when making choices and have the knowledge to make the best and most ethical decision for their organization. With employees having input and leadership listening and acting on their feedback employees are able to have influence in their organizations ethical behavior and even work as an ethical check and balance system to keep the organization ethically on track. This will be discussed in more detail in the fourth section of this chapter.

Support Systems

Michael Mulligan states, referring to the passage of the Sarbanes-Oxley Act of 2002, “People are still standing on the sidelines...Companies will make changes after there is tangible evidence of the law’s consequences—or when company executives are personally sued or prosecuted for breaking it” (The Economy, January 6-12, 2003). Mulligan implies that passing a law is not always enough motivation for many organizations to change their current practices. And many companies are waiting to make the proper organizational changes to comply with the Sarbanes-Oxley Act until they are forced to do so, specifically those changes to protect “whistleblowers” that report illegal behavior (The Economy, January 6-12, 2003). If many organizations are waiting and not making the necessary changes to protect whistleblowers (or to support other laws governing organizational behavior), then it is still not safe in those organizations to report illegal/unethical behavior and additional support systems are needed internally and at the Local, State and National level to protect those who do report.
Craig Walton states that, “the time has arrived to look closely at the making of moral support systems to include positive and negative sanctions…such that any member professional, in a sense, has the ‘backup’ of his or her peers when the crunch comes, pitting one’s best judgment against a boss’s pressure to choose wrongly” (Fall 2000, 330-331). Walton also states, “By ‘support systems’ I mean that local chapters, newsletters, perhaps a standing committee of the local or state chapter, and the national office all develop and maintain the capability to advise, lend support, and mediate or provide collegial morale and material assistance if and as needed when the member finds herself on the firing line” (Fall 2000, 334). So whatever an employees’ profession, that profession would have support and protective measures in place at several levels that employee’s could turn to for help to protect them from loss of employment, intimidation or retaliation in the event that their internal environment did not support reporting of inappropriate behavior.

To illustrate: An employee in an organization has a supervisor that is controlling and periodically targets the members of her department with accusatory behavior. The supervisor often intervenes in cases they are assigned and makes them do things they disagree with and feel are not in the best interest of their clients. These decisions in turn create problems in their cases, often harming clients. Over time several employees leave the department to get away from this supervisor, some verbalizing complaints to management, others not. One day the supervisor takes an employee aside and tells him or her that he or she is not doing their job well (false accusation) and because of this will need to change his or her work schedule. This employee decides that his or her current work schedule is very important and others in that department that are less efficient are
able to work it and that he or she has had enough from this supervisor. Because this type of behavior has been going on for many years, the employee decides that it needs to be stopped, and files a grievance against this supervisor. This employee in the meantime has applied for a position in a new department. The District Office Manager (DOM) speaks with the employee and offers them that position if they will not file the grievance. The employee initially agrees but realizes the supervisor’s behavior will continue and decides the grievance needs to be filed. The employer does have an employee representative system in their organization and the employee turns to them for assistance, after a meeting is held and the supervisor lies about the employee’s behavior.

The DOM at this point begins to support the supervisor as the employee decided to proceed with the grievance. The DOM later brings the employee in, stating that someone else was chosen for the position they had applied for (leaving them for the time being in the unit with the supervisor against whom they filed the grievance), creating a very stressful and unsafe environment for the employee. The other employees of the department dare not speak out or they will be the next targets of the supervisor, whose inappropriate behavior is supported by management. This employee is in the middle of some difficult decisions and does not have support from peers and a small amount of support from the employee association. If the employee proceeds with the grievance, they will risk experiencing intimidation and retaliation (as demonstrated by the loss of the new position). This employee has had brief ethics training as required to remain licensed, but no real hands-on training in handling ethical dilemmas (which would be done in a learning organization through work groups and dialogue, Senge et al., 1994). In the ethics training by the employee’s profession (of which they are not a current paying
member) it was stated that organizations are held to a different standard than individuals ethically, with less burden on organizations to be ethical, leaving the employee feeling that their profession would not support him or her. Many ethics training programs curricula assume “that on acceptance into the profession one is ready to handle ‘dilemmas’ (the current euphemism for all personal, organizational, social, professional, and legal issues raised in this article, rolled into one simplistic term). Usually analysis stops here” (Walton, Fall 2000, 332).

This employee with no hands on ethics training cannot turn to other employees for help and believes they have lost the new position they applied for and are stuck with the supervisor, against whom they filed the grievance. He or she is in a very unsafe and unhappy environment as they are unsure what the supervisor will do to him or her next.

It is not acceptable that an employee should have to feel so unsafe and unprotected in their employment environment. This case and similar ones are common to many employment environments (as demonstrated in the former opening media stories) and show why it is so important for employees to have support systems where it is safe to speak up, and have to support, in order to stop inappropriate behavior. If these support systems were in place, one would not have to make the decision to sacrifice themselves to be a “whistle blower” and risk their job in order to be ethical (Walton Fall 2000, 332). In this case, if an internal peer employee support system was in place, they could support this employee by standing up (all the employees who were treated poorly) and agree that this supervisor’s behavior has been a problem for a while and needs to be dealt with. He or she would also be able to appeal to a local or state support system to hold the DOM accountable for their behavior as well. If it is not safe to report illegal/unethical behavior

125
and there are not supports systems for those who report organizations, then their employees will continue to participate in inappropriate behavior, causing harm to others when they misrepresent themselves.

Because many organizations will not comply with legal requirements until they are forced to, it is important that employees are able to, “Find out what options might exist, obtain help from peers in seeking resolution within the workplace if at all possible, or in the worst case to fight, not alone, but in concert with one’s peers to make it known that the entire profession stands with this member against this demand to violate the code” (Walton, Fall 2000, 334-335).

Additional Measures to Encourage Compliance

In addition to these support systems, it is believed that an organizational peer review system using employee involvement as well as stakeholder input would be helpful in applying pressure to organizations to practice more ethical decision-making. These peer review systems would use feedback from employees and other stakeholders in the organization and the community to monitor and rank companies on their performance each year. This process would work in a similar fashion to the Consumer Reports magazine (where people who use products are the ones that give the input on how things are working), but this report would be much more comprehensive. Organizations would be evaluated by independent surveys in the areas of employee satisfaction and treatment, whether reporting inappropriate behavior was supported, whether there was retaliation after reporting or intimidation to prevent reporting, whether there are reporting systems in place, whether there is proper ethics training in place and if it is modeled by leadership,
how well are communication and feedback systems working, and what if any involvement is there with lawsuits and resolution to lawsuits, etc. This information would be required to be reported by all organizations as well as support provided by organizations for those contracted to perform the surveys. And of course, survey responses would be kept confidential. The results would be public knowledge and published in a regular report. If organizations did not voluntarily participate or were uncooperative, they would be given a poor review by the evaluators reflecting their lack of cooperation.

Currently there are the *Fortune 500* and *Forbes* reports, among others at the national and some at the local level that rank organizations. *Forbes* and *Fortune* currently provide reports that do rank companies in categories such as: 100 Best Companies to Work For (ranking benefits, salary, training, work/life balance, stock performance), Fortune 500 (top performers and CEO’s), America’s most admired companies (ranked on long-term investment value, innovation, quality of management, services etc.) (*Fortune*, April 2004) and the Worlds’ 2000 Leading Companies (*Forbes* April 2004). What is missing from these reports is organizational involvement in the legal system, efforts to create ethical environments and how employee input is used in their organization. This proposed type of evaluation would take the analysis of organizations to another level of accountability. This report would include employees’ views and the previously stated criteria. It would provide a more comprehensive picture of organizations to the community and other stakeholders. Instead of just rankings, consumers would be able to look up each company individually on how they were doing. Organizations would be required to show proof that they have implemented effective ethics programs and that
they are complying with the Federal Sentencing Guidelines and the Sarbanes-Oxley Act. It would also address positives like organizational recognition and achievement.

Thus, organizations like Microsoft who are currently doing well and at the top of many organizational lists like *Forbes* and *Fortune* would have to provide information on their lawsuit activity associated with their virtual monopoly of the products they produce (much of this already being public knowledge). While Microsoft is currently doing very well, continued negative publicity and sanctions may harm their organization, resulting in more severe sanctions and possibly future massive layoffs if they are found guilty and receive more harsh sanctions (*Las Vegas Review Journal*, March 25, 2004). If stakeholders can see the large picture (that Microsoft is doing well but flirting with illegal/unethical behavior), they may choose an organization that is ethically intact over an organization that is experiencing legal problems.

With comprehensive reports, future employees and the community would be able to see the big picture of the organization, not just that they ranked well in the *Fortune 500* survey. Surveys would be confidential, done by a contracted company outside the organization, with incentives provided for their completion. For those looking for employment or to be involved with organizations, this report would provide information on those companies who treated their employees better and have environments that maintain high ethical standards or those who had legal issues and unhappy employees. Higher ethically graded companies would then be able to attract the more valuable employees and stakeholders, making their companies stronger. With organizations being more accountable for their behavior and the public being more aware, there would be more incentive, through peer pressure, for the organizations to comply with ethics.
measures. Organizations ranked as ethical (not just most profitable) would be able to recruit top employees. Other organizations would be pressured to comply in word and deed with the standards provided by the Federal Sentencing Guidelines and other laws that regulate organizational behavior. Thus, peer review would provide additional pressure for organizations to make changes that the Guidelines mandate but are unable to enforce.

If many organizations wait until they are sanctioned before they make changes, as Mulligan suggests, and with the amount of organizations sanctioned being less than 1% per year, then it stands to reason that many organizations will not put forth the effort to make proper ('proper' meaning implementing) changes that result in an organizational change to more ethical behavior. While many organizations may create ethics/compliance programs so they can check the boxes and say they did the task, they may be merely giving “lip service” to them, making them ineffective (Chapter III). Because the Guidelines are virtually powerless to enforce their mandates on organizations, there must be additional networks in place to monitor and ensure successful implementation. With the proposed feedback systems in place, organizations giving “lip service” would get poor reviews on ethics and be forced to change their behavior.

Employees as a Check and Balance System

In addition to the heightened awareness that these reports would bring to organizations’ ethical behavior as a whole, it would also be beneficial for the companies contracted to conduct surveys, completed by employees, reviewing managers, supervisors
and other leadership and their behavior to ensure the internal organizational ethical system was intact. By doing this, organizations would be able to work with their leadership to become more consistent with the organizational values and mission, (if they were not in line with them), reducing unethical behavior. Catholic Health Care West is an organization that ranked in the top 50 “Best Places to work in the Bay Area”. This organizations’ employees complete surveys on their managers and supervisors annually (See Appendix). These surveys ask employees to answer questions regarding their direct leaders or supervisors on their support of their organization’s mission, commitment to the organization, personal characteristics, customer/patient focus, teamwork and collaboration, continuous improvement, ability to change when necessary, developing others and their strategic agility (Catholic Health Care West, 2004). Through this process, employee input is used, influencing the organization by providing feedback to improve leadership.

Additional methods of employee input as used by St. Rose Dominican Hospitals are Employee Forums, Employee Satisfaction surveys and Values in Action Training. At Employee Forums, the CEO or another administrator provides a report on what has been happening in the organization and what the plans for the future are. Employees have an opportunity to submit questions ahead of time or ask questions at the end of the forum, getting direct answers to their concerns from the CEO.

Employee Satisfaction surveys allow employees to report how they are feeling regarding their employment at the hospital. These surveys are reviewed and through feedback, changes are made to improve employee satisfaction. Each employee also is required to attend a Values in Action Training to learn or review the hospital values,
giving employees opportunities to understand better what is expected of them so that when they understand them they can better put them into practice. By doing these things, St. Rose Hospitals are encouraging learning in their environment and promoting those characteristics that create a learning organization.

We can contrast this with the example used in the Support Systems section of this chapter where reporting was unsafe and there were not opportunities to have input in the employment environment. The values that were being taught in this other organization were that of ignoring inappropriate behavior and giving rewards or better positions if you cooperated with the system. If you did not play by the rules, you would experience intimidation, retaliation and feel very unsafe in your environment—creating an unethical environment.

By contrast, St. Rose Hospitals are continuously striving to improve themselves and their employees' knowledge by teaching and placing importance on the values of dignity, trust, collaboration, excellence, stewardship, justice etc., and giving their employees the knowledge and skills to put them into practice as well as being able to ask questions and raise concerns publicly with no negative repercussions, encouraging open communication. These methods allow valuable input from employees into their organization. When employees are taught good ethical behavior, allowed to practice it, give feedback and have input they can in turn influence their organization to be more ethical.

In the former chapters if this thesis, the value of employee involvement in an organizational change was discussed. Arguments were made to support the idea that there must be employee input in order to keep organizations ethically on track. When
employers ask for and utilize employee input they are able to get very valuable feedback preventing many future problems including unethical or unhappy workers. Employees can tell leadership that a certain change will be harmful and why or state the reasons why it would be beneficial. If leadership does not solicit employee input, they may overlook the true impact which the change they are making will have.

After employees give input and the decision to make the change is made, they also need to be involved in the implementation process. They can assist with the most effective ways to communicate and create buy-in and support from all staff. If they are not asked to participate in the change process, and therefore lack the information needed to understand the changes and how the changes benefit them and the organization, then communication will be more challenging and there will be more resistance, reducing the benefits and effectiveness of the proposed changes. When we include employees in the dialogue process (Nielsen, 1996; Senge et al., 1994), employees have a clearer understanding and consequently implementation of changes is more successful. Other benefits of asking for employee input are that they feel valued. When employees feel valued, loyalty and commitment to the organization increases.

Final Recommendations

With the knowledge that organizational culture determines whether our organizations are ethical and unethical, we have an obligation to assess the types of organizational behaviors we are promoting. After assessing our organizations, we need to take the necessary steps to ensure our organizations are promoting ethical behavior. We have been provided many tools and guidelines to accomplish this. The Federal Sentencing
Guidelines provide organizations with recommendations for implementing ethics/compliance programs. However, with the Guidelines' inability to regulate organizational compliance and work as a strong deterrent, it becomes necessary to look to additional resources to successfully implement and maintain effective ethics programs. Trevino et al. present what an ethical organization should look like when an effective ethics/compliance program is properly implemented and emphasize the importance of consistent leadership and employee input to effective implementation. The learning organization was presented as a structure that organizations can use to create an ethical environment. The learning organization is supportive of current management strategies, allows organizations to follow the Federal Sentencing Guidelines, utilizes consistent leadership while increasing knowledge and input of the employees in the organization through feedback and workgroups, increasing awareness of action-outcome relationships, creating a shared vision, encouraging personal mastery, and increasing awareness of perceptions.

In order for organizations to develop and maintain ethical environments they must create ethics programs that follow the Guidelines recommendations, utilize the positive power of leadership example and employee involvement and feedback, create employee support systems for those who choose to report unethical behavior, and create learning environments. With employee input and feedback, employees can hold their organizations responsible for their behavior and have influence in their organizations, working as an ethical check and balance system.

In addition it is important that organizations are held accountable for their behavior before it gets to the point that they are involved with the courts. With a system that
provides a comprehensive report on organizational behavior, stakeholders and those looking for employment can use these as a guide to determine to whom they would take their skills and their business to, with the intention being that ethical organizations receive the better employees and stakeholders, motivating the less ethical organizations to modify their inappropriate actions to become more ethical.

With the many unethical/illegal behaviors of organizations being so widespread, there must be additional systems in place to create accountability for organizations. When organizations participate in illegal/unethical behavior, they cause harm to others (death, serious financial loss, loss of employment, trust etc.) as evidenced by the examples in this thesis. If we can create ethical environments, we can reduce illegal/unethical behavior thereby reducing the harm that is caused by the acts. Any society that aspires to justice has a responsibility to move in this direction.
APPENDIX

SAMPLE FEEDBACK ASSESSMENT QUESTIONNAIRE
Shortcuts

<table>
<thead>
<tr>
<th>Topic</th>
<th>Question</th>
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<tbody>
<tr>
<td>Mission and Commitment</td>
<td>1. Mission Focused</td>
</tr>
<tr>
<td>Personal Characteristics</td>
<td>- Consistently builds a climate of fairness and respect</td>
</tr>
<tr>
<td>Customer/Patient Focus</td>
<td>- Explains how decisions are linked and aligned with the organization's core purpose</td>
</tr>
<tr>
<td>Teamwork and Collaboration</td>
<td>- Keeps the organization's mission and values at the forefront of decision making action</td>
</tr>
<tr>
<td>Continuous Improvement</td>
<td>2. Visionary</td>
</tr>
<tr>
<td>Change Leadership</td>
<td>- Actively supports and encourages efforts to build on cultural initiatives</td>
</tr>
<tr>
<td>Developing Others</td>
<td>- Conveys a compelling vision of the future</td>
</tr>
<tr>
<td>Strategic Agility</td>
<td>- Instills pride in excellence and in belonging to the organization</td>
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1. Mission Focused
- Consistently builds a climate of fairness and respect
- Explains how decisions are linked and aligned with the organization's core purpose
- Keeps the organization's mission and values at the forefront of decision making action

2. Visionary
- Actively supports and encourages efforts to build on cultural initiatives
- Conveys a compelling vision of the future
- Instills pride in excellence and in belonging to the organization

1 = Never
2 = Rarely
3 = Sometimes
4 = Often
5 = Almost Always
N = No Answer / Don't Know
Shortcuts

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<td>Personal Characteristics (6-10)</td>
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Personal Characteristics

6. Self-Control

- Maintains composure when under pressure
- Speaks and acts respectfully even while angry or frustrated

7. Adaptable

- Adjusts to multiple demands, shifting priorities, ambiguity and change
- Demonstrates flexibility
- Handles day to day work challenges with confidence

1 = Never
2 = Rarely
3 = Sometimes
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### Shortcuts

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### Customer/Patient Focus

#### 11. Analyzes Needs
- Anticipates future healthcare needs and problems
- Asks good questions to help patients and employees clarify their needs
- Consults with patients, care-givers and employees to help analyze healthcare needs

- Options: 1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Often, 5 = Almost Always, N = No Answer / Don't Know

#### 12. Responds to Customer/Patient Feedback
- Assumes leadership in making processes more responsive
- Focuses on opportunities for improvement
- Provides timely response to quality of care issues and patient concerns

- Options: 1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Often, 5 = Almost Always, N = No Answer / Don't Know
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Teamwork and Collaboration

16. Motivator

- Creates environment that encourages others
- Displays/develops enthusiasm in self and others
- Maintains a positive mental attitude

17. Fosters Open Communication

- Encourages open and honest expression of ideas and opinions
- Facilitates open dialogue and discussion in groups
- Gives serious consideration to dissenting ideas and opinions

Options:
- 1 = Never
- 2 = Rarely
- 3 = Sometimes
- 4 = Often
- 5 = Almost Always
- N = No Answer / Don't Know
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*Continuous Improvement*

22. Uses Networks as a Resource to Solve Problems

- Knows when and how to ask for assistance
- Uses internal/external networks to help with solutions

23. Champions continuous improvement

- Develops action plans to correct defects
- Includes direct reports in the development of plans to reach targets
- Uses data to identify defects and opportunities for improvements

1 = Never
2 = Rarely
3 = Sometimes
4 = Often
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### Change Leadership

28. Champions change
- Prepares people to understand why changes are necessary
- Rewards successes early and often
- Stimulates others to make changes and improvements

29. Implements cohesive communications practices
- Creates opportunities for constructive dialogue and exchange of ideas
- Outlets are available for employees to express their concerns
- Puts in place effective communication practices and processes for various constituencies

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## Developing Others

### 34. Accurately Assesses people

- Recognizes the strengths and development needs of employees
- Spots high potential people and manages to their strengths
- Understands people's limitations and provides safeguards and support

- 1 = Never
- 2 = Rarely
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- 5 = Almost Always
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### 35. Clearly communicates performance expectations

- Assures that everyone knows what is expected of them
- Provides clear directions and defined outcomes for the people they lead
- Seeks and receives regular feedback from subordinates to assure mutual understanding

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<td>Mission and Commitment</td>
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**Strategic Agility**

40. Demonstrates job knowledge
- Demonstrates a solid base of experience in his/her area of expertise
- Keeps up to date on professional/technical developments in their field
- Stays informed about industry practices and developments

41. Intellectual Power
- Actively secures useful information, quickly sorting through the irrelevant to focus on key indicator
- Demonstrates depth and breadth of knowledge relevant to achieving organizational goals

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<td>Mission and Commitment</td>
<td>46. What two personal/professional behaviors or qualities contribute significantly to this person's effectiveness?</td>
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<tr>
<td>Personal Characteristics</td>
<td>47. What two personal/professional behaviors or qualities interfere with this person's effectiveness?</td>
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145

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146


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VITA

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Special Honors and Awards:
Voted Employee of the Year for 2003 at St. Rose Dominican Hospital

Thesis Examination Committee:
Chairperson, Dr. Craig Walton, Ph. D.
Committee Member, Dr. Alan Zundel, Ph. D.
Committee Member, Dr. Cynthia Townley, Ph. D.
Graduate Faculty Representative, Dr. Joseph Gilbert, Ph. D.