



Relationship between Employee Perceptions of Corporate Ethics and Organizational Culture: An Exploratory Study

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Abstract

Organizational research in the last two decades has paid greater attention to the topic of culture as a potential key or critical lever for better understanding of organizations. Culture has drawn attention to the long-neglected, subjective, or “soft” side, of organizational life. In functionalist thinking, culture is considered a component of an integrated social system which promotes the effectiveness of the organization and the well-being of all its stakeholders. Organizational culture refers to the assumptions, beliefs, goals, knowledge and values that are shared by organizational members. Culture represents the high-information “ideal factors” in a system or organization that exert significant and partly independent influence on human events. When an individual is faced with an ethical dilemma, his or her value system will color the perception of the ethical ramifications of the situation. This study, then, seeks to explore and have a basic understanding of the relationship between such value systems and employees’ perceptions of organizational ethics. Analysis of a survey of 136 MBA students who are managers in Philippine companies regarding their firms’ culture and their organizational members’ perceptions of ethics reveals that there is a slightly significant relationship between particular cultural characteristics and employee perceptions of organizational ethics. This finding provides modest support for the theory that organizational values are associated with organizational members’ perception of ethical business dilemmas. It likewise confirms the suggestion in the literature that organizations take on various cultural characteristics along the different stages of their life cycle, and that individual values and ethical perceptions do interact with the organizations’ value systems.

Keywords: Organizational culture, corporate ethics

1. Introduction

Attention to the design and management of organizations is overarching in contemporary writing about business, given the many organizational governance issues that have arisen in the last few years. In particular, the concept of organizational culture has appeared to be especially useful, since it has drawn attention to the long-neglected, “soft” — but nevertheless “information-filled”— side of organizational life (Alvesson, 2002; Smelser, 2005).

Culture is said to have pervasive effects on a firm because a firm’s culture defines who are its relevant employees, customers, suppliers, and competitors, and how a firm will interact with these key actors (Barney, 1986). Studies postulating relationships between organizational culture and the behavior of key organizational actors are based largely on the functionalist view of culture, which considers culture as a component of an integrated social system and treats culture as serving the common good, thereby promoting the effectiveness of the

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organization and the well-being of all its stakeholders (Alvesson, 2002; Smelser, 2005). As an extension of studies showing culture to be a determinant of the moral content of organizational behavior (Sims, 1992), this paper sets out to empirically explore the relationship between culture and employees' perceptions of organizational ethics.

2. Literature review

2.1 Organizational culture

Interest in culture as a potential key or critical lever for organizational effectiveness has increased rapidly because of the rising tide of global competition bringing diverse cultures together in business and teamwork.

While organizational culture has no single widely accepted definition, most authors agree that "corporate culture" refers to the assumptions, beliefs, goals, knowledge and values that are shared by organizational members (Schwartz and Davis, 1981; Deal and Kennedy, 1982; Sathe, 1983; Schein, 1992). Such values and beliefs, when supported by various operating norms and rituals, can exert a decisive influence on the overall ability of the organization to deal with the challenges that it faces (Morgan, 1997).

Most scholars agree that organizational culture is a phenomenon that involves beliefs and behavior; that it exists at a variety of different levels in organizations; and that it manifests itself in a wide range of features of organizational life such as structures, control and reward systems, symbols, myths, and human resource practices (Pettigrew, 1979; Schein, 1992; Kotter and Heskett, 1992).

Studies postulating relationships between organizational culture and the behavior of key organizational actors are based largely on the functionalist view of culture, whereby culture is viewed as an instrumental apparatus by which organizational members are put in a better position to cope with the specific problems faced in the course of need satisfaction (Allaire and Firsirotu, 1984; Meek, 1988; Denison and Mishra, 1995).

The functionalist perspective, in addition, considers culture as a component of an integrated social system which also includes a social structure component, to maintain an orderly social life, and adaptation mechanisms, to maintain society's equilibrium with its physical environments (Allaire and Firsirotu, 1984). On solving their functional problems, organizations have learned to put primary emphasis on specific cultural strategies depending on the developmental stage at which they find themselves. For instance, new organizations tend to focus on adaptation to the external environment through innovation. After successful adjustment, organizations begin to stabilize and emphasize on pattern maintenance (Quinn and Cameron, 1983). This analysis runs parallel to Parsons and Shils' (1951) understanding of organizations' functional problems as being chiefly problems of adaptation, goal attainment, integration, and pattern maintenance. The resulting "Competing Values Model" of organizational culture captures the fact that organizations have to meet those multiple demands at the various life-cycle stages. By integrating these recognized dilemmas in organizational life, this model therefore makes clear the values in which the concepts are embedded, and provides an overarching framework to guide subsequent efforts at organizational assessment and improvement (Quinn and Rohrbaugh, 1983).

As a model that organizes the literature on organizational effectiveness and clarifies the value dimensions that are considered key to organizational behavior, it likewise sheds light on what managements tend to give emphasis to — shared values, beliefs, understandings, and norms— and therefore what goals and ends they consider important. Culture in this sense contributes to the avoidance of fragmentation, conflict, tension, and other miseries; organizational life is seen as characterized by consensus, harmony and community (Alvesson,

2002). This is sometimes called the integration approach, whereby all cultural members are said to share the same view of culture, as that which is clear, rather than ambiguous. As such, culture is the “social glue” that holds members together in an organization-wide consensus (Siehl and Martin, 1990). Another version of the “social glue” idea emphasizes the control aspect and considers corporate culture as a social control system. According to this notion, control systems operate when those who are monitored are aware that someone who matters, such as a boss, is paying attention and is likely to care when things are not going according to plan. In addition, social control systems generate common agreements among people about what constitutes appropriate attitudes and behavior. Thus, from a management perspective, culture in the form of shared expectations may be thought of as a social control system (O’Reilly, 1989).

Culture is beneficial for both newcomers and seasoned veterans, since culture — as social control system— represents the behavior patterns or style of an organization that tend to persist over time and that new employees are somehow automatically encouraged to follow by their fellow employees, thus clarifying what they should do or say in a given situation. In this sense, it provides stability to behavior, both with respect to what one individual might do at different times, but also what different individuals may do at the same time (Kotter and Heskett, 1992; Greenberg, 1996). Two consequences of culture’s being a control mechanism are: (a) an organizations’ culture provides a sense of identity for its members. The more clearly an organizations’ shared perceptions and values are defined, the more strongly people can associate themselves with their organizations’ mission and feel a vital part of it; and (b) culture generates commitment to the organizations’ mission. Sometimes it is difficult for people to go beyond thinking of their own interests. However, when there is a strong, overarching culture, people feel that they are part of that larger, well-defined whole and involved in the entire organizations’ work. Bigger than any one individual’s interests, culture reminds people of what their organization is all about (Greenberg, 1996).

In summary, organizational culture is the social glue that holds the organization together by providing cues for what employees should say and do. Culture thus fulfills a number of functions: it creates a distinction between one organization and another, it provides a sense of identity for organizational members, and it generates a commitment to the larger team or organizational unity.

2.2 *Corporate ethics*

Ethics is a philosophical term derived from the Greek word “ethos” meaning character or custom. Ethics are the principles that will tell us the right thing to do, or what things are worth doing. Ethics refers to a set of standards governing behavior; it refers to broader-based, value-driven rules (Sims, 1992; Jansen and von Glinow, 1985; Kubal, Baker and Coleman, 2006).

Ethics can be distinguished from morality in that, while morality deals in general with principles of right or wrong conduct, ethics is more concerned with standards of conduct acceptable to a group, a profession or members of an organization. Alternatively, organizational ethics can be understood as elaborations of pre-existing broader moral principles, which include standards of behavior and are designed to respond to the particular dilemmas presented by that context (Sinclair, 1993). In any case, there is clear evidence that the level of moral reasoning is related to the choice of action that is advocated and is related to people’s value positions and stands on controversial public issues. In other words, moral judgment is not a value-neutral and purely cerebral style of intellectualizing, but is connected with values and decision-making (Rest, 1980).

There is evidence that there is an interaction between individual values and the organizations’ value systems. Thus, when an individual is faced with an ethical dilemma, his or her value system will color the perception of the ethical ramifications of the situation. It is,

therefore, critical to have a basic understanding of the relationship between value systems and individuals' perceptions of organizational ethics. One can also try to understand more about how people's values determine not only their perceptions of morality but also the actions they might take (Finegan, 1994; Nwachukwu and Vitell, 1997)

In the last few years, the corporate world has come under increasing pressure to behave in a socially responsible manner (Finegan, 1994). In particular, recent accountability failures in the West and elsewhere have led to bankruptcies and restatements of financial statements that have harmed countless shareholders, employees, pensioners, and other stakeholders. These failures have created a crisis of investor confidence and caused stock markets around the world to decline by billions of dollars (Walker, 2005).

Standards for what constitutes ethical behavior lie in a hazy area where clear-cut right-versus-wrong answers may not always exist. Scholars from a variety of disciplines have contributed significantly to efforts to develop useful conceptual categories for dealing with what has been termed the "management of values" (Sims, 1992; Epstein, 1987).

The interest in this study is in the exploration of individuals' perceptions of organizational ethics. Difficulties continue to exist in the measurement and description of employees' ethical perceptions. Quantitative efforts to develop scales in this regard have tended to center on either broad-based concepts such as organizational culture or issues such as value priorities (Hunt et al., 1989). Both the Ethical Culture Questionnaire of Key (1999) and the Corporate Ethics Scale by Hunt, Wood and Chonko (1989) measure individual perceptions regarding organizational ethics. The Hunt, Wood and Chonko scale — which is being used in this study— attempts to capture the broader principles of the degree to which organizational employees take an interest in ethical issues and act in an ethical manner.

3. Research problem

The research question this study addresses is: Whether there is any relationship between employees' perceptions of corporate ethics and organizational culture. Given that there is an interaction between individual values and the organizations' value systems (Nwachukwu and Vitell, 1997), and given the pressure on businesses to be more ethically discerning and to behave in a more socially responsible manner, it is important to undertake an empirical study of the culture-ethics link. This study explores such a relationship in the context of businesses in the Philippines.

4. Methodology

This study involves a survey of 136 MBA students who are managers in Philippine companies, thus making the sample a convenience sample. The questionnaire survey was administered in the period from June 2005 to September 2005.

The "Corporate Ethics Scale" of Hunt, Wood and Chonko (1989) was used for the survey of Corporate Ethics since each of the measures is directly associated with ethical perceptions of employees in relation to their managers and the corporation as a whole. Their measure was developed to capture three broad-based perceptions: (a) the extent to which employees perceive that managers are acting ethically in their organization, (b) the extent to which employees perceive that managers are concerned about the issues of ethics in their organization, and (c) the extent to which employees perceive that ethical (or unethical) behavior is rewarded (or punished) in their organization.

The model of culture types by Deshpandé, Farley and Webster (1993) has been utilized in this study (see Figure 1). The two key dimensions of their model represent a merging of two major theoretical traditions from the organizational behavior literature: the systems-structural

perspective and the transaction cost perspective. One axis describes the continuum from organic to mechanistic processes, that is, whether the organizational emphasis is more on flexibility, spontaneity, and individuality, or on control, stability, and order. The other axis describes the relative organizational emphasis on internal maintenance (i.e. smoothing activities, integration) or on external positioning (i.e. competition, environmental differentiation). Each culture label includes assumptions relating to: dominant organizational attributes, leadership styles, organizational bonding mechanisms, and overall strategic emphases.

The “Organizational Culture Scale” of Deshpandé, Farley and Webster (1993) was used in order to survey the organizational cultures in the companies included in the sample. The Scale contains a total of 16 questions, representing the 16 possible descriptions of the culture in an organization, for instance, the “dominant attributes” in a “clan” culture, the “leader style” in an “adhocracy” culture, etc. The 16 questions boil down to four general categories of organizational culture, labeled as follows: Clan, hierarchy, adhocracy, and market.

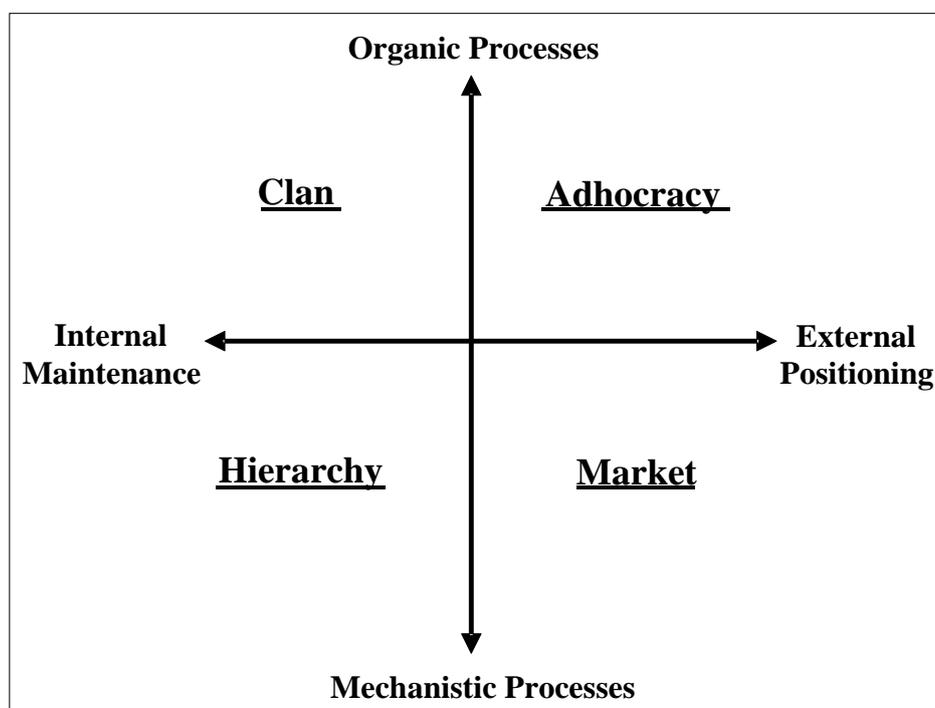


Figure 1. Deshpandé, farley & webster model of organizational culture types. (Source: Deshpandé et al., 1993.)

Factor analysis of the culture survey responses as well as of the corporate ethics survey responses was performed, in order to reveal the “ethics factor” and the “culture factors” inherent in the survey data. Afterwards, Correlation Analysis was performed between the factor scores of each of the resulting culture factors and the resulting ethics factor scores.

5. Results and discussion

Factor analysis of the corporate ethics survey responses resulted in only one ethics factor, which we shall call “ethical orientation”. This result which deviates from expectation based

on theory may be explained by the differences in national culture as well as ethical culture between the Philippine sample and the original American sample. The Appendix (Table A) reports the factor loadings of the five items on the corporate ethical values scale. Factor analysis of the organizational culture survey responses resulted in four culture factors. The Appendix (Table B) presents these culture factors, the reliability measures, and the questionnaire items that loaded onto them.

The organizational culture factor analysis results show that, based on respondents' descriptions of the culture within their organizations, the Philippine firms in the sample do not possess any dominant, unitary culture within them. That is to say, the organizations seem rather to be composed of subcultures. These groupings of subcultures may be summarized as follows: (a) a dynamic and entrepreneurial culture emphasizing growth, innovation, competition and human resources; (b) a formalized and structural culture, oriented towards permanence and stability; (c) a production-oriented culture, with a leader considered to be a coordinator and administrator; and (d) a tradition-oriented "family" culture, with the head generally considered to be a parent figure. The latter result coincides with a previous research (Acuña, 1999-2000) on the comparative value orientations and internal work cultures of six Philippine banks adding paternalism and leadership styles to Hofstede's value model: the most common actual leadership style was paternalistic.

Table 1 presents the correlation coefficients and the significance levels of the ethics factor vis-à-vis the four culture factors. As shown in Table 1, the correlations are significant (although the coefficients are not large) between each of the organizational cultures and ethical orientation. At first glance, this result may look curious and meaningless: any culture is slightly related with ethical orientation. Some explanations that can be given for this result are the following: (a) Philippine firms may not possess any dominant, unitary culture within them, and that a subcultural approach to the management of culture to explore ethics in organizations might be preferable; (b) the findings provide modest support for the theory that organizational culture is associated with organizational members' perception of corporate ethics. It may be that the subcultures existing in organizations are more likely than unitary corporate cultures to be the repository of values and norms that are lasting and significant influences on behavior. Managers might have to see past the attractiveness of culture as a "lever" and accept the reality that they may even benefit from the discourse about values that many subcultures spawn (Sinclair, 1993).

Table 1. Correlation coefficients and p-values.

	Pearson's <i>r</i>	<i>p</i> -value
Ethical perception and culture factor 1 (Growth & Innovation)	.425	.000
Ethical perception and culture factor 2 (Formality & Stability)	.337	.000
Ethical perception and culture factor 3 (Production orientation)	.177	.046
Ethical perception and culture factor 4 (Traditional family culture)	.337	.000

6. Conclusion and implications

This study, involving a survey of 136 graduate students who are managers in Philippine companies, reveals that there is a slightly significant relationship between particular cultural characteristics and employee perceptions of organizational ethics. The managerial implications of this finding involve discussions of the cultural values that are needed depending on the life-cycle or developmental stage at which the organization finds itself.

With regard to those cultural values that are closely tied to ethical perceptions, the findings here show clear evidence that moral judgment is related to organizational members' value positions, beliefs, and assumptions. In other words, ethical discernment is not value-neutral, but is necessarily directly associated with values and decision-making. The results of this study, then, provide modest support for the theory that organizational values are associated with organizational members' perception of ethical business dilemmas (Rest, 1980; Finegan, 1994).

More specifically, Quinn and Cameron (1983) show that certain cultural characteristics manifest themselves depending on the organizations' life cycle stage. For instance, the early stage is characterized by innovation and niche formation; then follows a high cohesion and collectivity stage; after which come stability and institutionalization; and finally structure elaboration. The four cultural characteristics into which this study's culture survey reduces, as stated in Table 1, are: (a) growth and innovation, (b) formality and stability, (c) production orientation, and (d) tradition orientation. Each of these clearly represents one given organizational developmental stage, and each of these is correlated to ethical perceptions. One can glean from this result either that organizational ethics are important for every stage of the organizational life cycle or that, whatever the organizational culture, the respondents give slightly significant importance to corporate ethics.

While these findings are not conclusive, they may confirm the suggestion that organizations take on various cultural characteristics along the different stages of their life cycle, and that they are likely to embrace different mixtures of values that reflect their desired ends and the means to attain them (Quinn and Rohrbaugh, 1983). Furthermore, it appears that individual values and ethical perceptions do interact with the organizations' value systems (Finegan, 1994), lending evidence to the theory that an organizations' ideology and culture is indeed likely to shape decision-making and action in that organization.

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Appendix:**Factor analysis results**

Table A. Principal components solution: corporate ethical values.

<i>Reliability measure (Cronbach's alpha) =</i>	.7466
	Factor 1 (factor loadings)
1. Managers in my company often engage in behaviors that I consider to be unethical.	.782
2. In order to succeed in my company, it is often necessary to compromise one's ethics.	.746
3. Top management in my company has let it be known in no uncertain terms that unethical behaviors will not be tolerated.	-.710
4. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in personal gain (rather than corporate gain), he or she will be promptly reprimanded.	-.709
5. If a manager in my company is discovered to have engaged in unethical behavior that results primarily in corporate gain (rather than personal gain), he or she will be promptly reprimanded.	.578

Table B. Organization culture factors.

	Factor 1	Factor 2	Factor 3	Factor 4
<i>Reliability measure (Cronbach's alpha) =</i>	.8377			
My organization emphasizes growth and acquiring new resources.	.759			
The glue that holds my organization together is commitment to innovation and development.	.738			
My organization emphasizes human resources.	.737			
My organization emphasizes competitive actions and achievement.	.686			
My organization is a very dynamic and entrepreneurial place.	.664			
The head of my organization is generally considered to be an entrepreneur, an innovator, or a risk taker.	.607			
<i>Reliability Measure (Cronbach's Alpha) =</i>		.7918		
The glue that holds my organization together is formal rules and policies.		.882		
My organization is a very formalized and structural place.		.820		
My organization emphasizes permanence and stability.		.541		
<i>Reliability measure (Cronbach's alpha) =</i>			.6677	

My organization is very production oriented.	.744
The head of my organization is generally considered to be a producer, a technician, or a hard-driver.	.663
The head of my organization is generally considered to be a coordinator, an organizer, or an administrator.	.557
The glue that holds my organization together is the emphasis on tasks and goal accomplishment.	.464
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<i>Reliability measure (Cronbach's alpha) =</i>	<i>.5976</i>
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My organization is a very personal place.	.726
The glue that holds my organization together is loyalty and tradition.	.678
The head of my organization is generally considered to be a mentor, sage, or a father or mother figure.	.589
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