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Improving the Ethical Culture: A worthwhile investment

By Scott Dahl

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Recent corporate scandals involving Volkswagen, Takata, Wells Fargo, and others demonstrate that unethical conduct is ultimately bad for business. News articles and court records about several of these scandals reveal corporate cultures that allowed improper conduct to persist unabated for years. This article focuses on what management can do to improve and sustain an ethical culture and thereby reduce the risk of such a scandal emerging and harming the organization. A strong ethical culture can also have a positive impact on business and even provide marketing opportunities.

What is an ethical culture?

The ethical culture is one part of the overall organizational culture. Inc.com defines "corporate culture" as follows:

> [T]he shared values, attitudes, standards, and beliefs that characterize members of an organization and define its nature. Corporate culture is rooted in an organization's goals, strategies, structure, and approaches to labor, customers, investors, and the greater community.[1]

The ethical culture is strongest when integrity is so ingrained at all levels of the organization that it becomes a part of how the company defines itself and how it operates. A thriving ethical culture extends beyond just following the rules and not committing fraud — the value of integrity informs business strategies and decisions.

Although this article focuses exclusively on the ethical culture, it is deeply intertwined with other aspects of the corporate culture, such as the treatment of gender/race/sexual identity, collaboration, diversity/inclusion, respect, trust, transparency, and others. A strength or a weakness in one cultural area will often indicate a corresponding strength or weakness in another. For example, allegations against the founders of Uber and Social Finance involved both sexual harassment/misconduct and ethical breaches.[2] ,[3]

Why an ethical culture matters

Serious unethical behavior that comes to light can be very costly to the company, hurting the stock value, reputation, and credibility with customers. VW pled guilty to a felony (and two former officials recently received stiff prison sentences), paid more than $20 billion in fines and settlements, and lost significant stock value when the scandal broke. Takata also pled guilty to a felony, agreed to pay $1 billion in fines and settlements, and filed for bankruptcy protection in Japan and the U.S. And Wells Fargo paid more than $300 million in fines and settlements and suffered both declining stock value and lost customers.

The flip side — the value of an ethical culture — is also evident from companies using as part of their brand marketing strategy that they are honest, healthy, or socially/environmentally responsible, even including such

values in their names. For example, the consumer products company, The Honest Company, set out to develop "one brand that we could go to for trusted products and information."[4] Being a good corporate citizen not only has appeal to a growing segment of consumers, it can also bolster a company's appeal to investors. The CEO of the world's largest money manager recently alerted corporate chiefs to be ready to show the "societal impact" of their products or services.[5]

Businesses using ethics in their marketing made it onto the list of 2018 Trends by Fjord, the design and innovation unit of Accenture Interactive. Fjord names the trend, "The Ethics Economy," and predicts: "Making a difference will soon become a key point of differentiation and the potential for ethics as a business metric is already the topic of some industry debate."[6]

Improving and sustaining an ethical culture

Key ingredients of a strong ethical culture include: (1) clear, consistent, and repeated communication from leaders to employees that integrity is a priority for the organization; (2) staff engagement in defining the values of the organization; and (3) a vibrant ethics program. The three are closely connected — leaders can use the ethics program to communicate to staff about the importance of integrity, and the ethics program can be successful only if it has top-level support and buy-in from staff.

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