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Culture and code of ethics: Connecting the dots through measurement

By Ruth Steinholtz and Teri Quimby, JD, LLM

Ruth Steinholtz (rsteinholtz@gmail.com) is the founder of AretéWork, in London, United Kingdom, and is the co-author of *Ethical Business Practice and Regulation: A Behavioural and Values-based Approach to Compliance and Enforcement* , and is a certified Barrett Values Analytics consultant. Teri Quimby (teri@teriquimby.com) is the president of Quimby Consulting Group LLC in Michigan, USA.

- [linkedin.com/in/ruth-steinholtz-a69b622](https://www.linkedin.com/in/ruth-steinholtz-a69b622)
- [linkedin.com/in/teriquimby/](https://www.linkedin.com/in/teriquimby/)

Organizational culture seems to be discussed daily, yet few can define it. For our purpose, we can use a simple definition: the way we do things around here. Edgar Schein’s three components are useful for a more precise and enduring definition: underlying assumptions and beliefs, norms and values, and artifacts that reflect these.^[1] The next stumbling block is cultural measurement, a controversial topic. Exactly which aspects of culture are being measured by different assessment tools is not always clear. In addition, many assessments purport to measure culture against a preconceived standard of what “good” should look like.^[2] One established measurement system being utilized is the Barrett Cultural Values Assessment (CVA), which has several advantages for integrity practitioners. It measures culture through the medium of the values and behaviors present in the organization. It aids risk assessment by essentially measuring “culture risk,” or the extent of dysfunction that can lead to disengagement and increase the risk of unethical behavior. Whichever system is used, leaders must understand their organization’s culture(s), track what changes over time, and know whether the ethical code has the desired effect.

Documented evidence of changes to culture over time shows commitment to internal and external stakeholders—including regulators.^[3] The importance of the connection between culture and the company’s ethical code cannot be overlooked. It works in both directions—the process of developing and socializing the code can contribute to an improvement in organizational culture as people become more aware. And the culture itself must be considered when drafting and designing the code and the ways of accessing it.

Encouraging a values-based, and therefore ethics-driven, company culture is necessary for successful implementation of business strategy. With high ethical standards, businesses are better equipped to attract and retain employees and customers. There are many reasons for this. A University of Notre Dame study exploring the damaging effects of unethical behavior on business success makes the connection. This finding is noteworthy: If the culture is highly ethics-driven, then operations also benefit from a higher level of service quality.^[4] Creating and maintaining an ethical culture is everyone’s responsibility, and it needs to be ever-present.

The importance of an ethical code that is built on authentic company values and encourages a high-trust culture must not be overlooked, but often is. Research indicates that this is a primary area in organizations that needs attention.^[5] With a steady stream of departures by leaders for unethical conduct and corporate-wide culture

scandals, why is it so hard to give this area the attention it deserves?

Do the work

After a consultative process of creation and launch, the principles of the ethical code and its underlying values need to be embedded in the culture where they do not already exist. This is best done by promoting the benefits of a values-based and ethics-driven culture, with enforcement as a last resort where intentional or reckless behavior is present. Clear and consistent messaging needs to be available to guide employees through decision-making. Codes that are too long, complex, or formatted mostly to meet checklist requirements will not lead to increased ethical conduct and may even have the opposite effect. An approach that is punitive or too focused on enforcement will fail for several reasons. For one, it will disincentivize speaking up and potentially hide unethical conduct.

In a *Harvard Business Review* article, authors Isaac H. Smith and Maryam Kouchaki point out the importance of understanding ethical decision-making.^[6] This employee education can occur at various points of the process, including before an action. Reflection on why something *could* go wrong has as much of a place in ethics discussions as an afterward dissection and debrief about why something *did* go wrong. Thinking through potential and actual ethical lapses in groups promotes ethical learning by providing an opportunity (and permission) to acknowledge biases, hear diverse points, and contemplate considerations of ethics involved. Making this a routine part of organizational culture helps keep ethical decision-making at the forefront of employees' minds.

Forbes Technology Council member Patrick Quinlan offers comments about building an ethics-first culture. Discussion of core values needs to occur, which may bring to light possible problems. Empowering employees to have open conversations about core values, and instill ethics into culture, requires an open mind: criticism will occur. Mindset shifting is also required, moving away from lists of prohibited activities to constantly focusing on people and education to promote ethical decisions.^[7]

Core ethical values—not compliance: Ethical business practice (EBP) and ethical business regulation (EBR)

While it is vital for leaders to strive for consistent ethical behavior, it is important to recognize that genuine mistakes will occur. “Convincing evidence of intention, a track record of achievement and a learning mindset are the keys to EBP and therefore EBR.”^[8] EBR is about building trust between a business and its regulator(s) that will enable the regulator to choose an appropriate intervention in the event a failure does occur. The implementation of an ethical code should contribute to promoting openness and transparency internally and externally towards regulators. Hence the importance of helping people to see the benefits of an effective, ethical culture rather than fearing the consequences of what may have begun as a mistake.

Getting an ethical code in place is a start; however, the work has just begun at this point. The organization must conduct a routine review and reflection of the organization's continuing commitment to an effective, ethical culture. And to document progress, culture measurement is mandatory.

Measuring culture: Assessment tools

Using assessment tools such as the CVA^[9] uncovers the “norms and values” present in the culture, enabling discussion about “underlying assumptions and beliefs” that influence decision-making behavior.^[10] As mentioned above, it will also expose areas of dysfunction where unethical behavior is more likely to flourish, assisting prioritization of scarce resources. Keeping an open mind is imperative with assessments because

strengths and weaknesses will be exposed; leaders should not be defensive. The gathering of this information informs organizational changes: Where are we now, and where do we want to be? Understanding similarities and differences between the alignment of employees' personal values within the organizational culture is a foundational block of necessary knowledge.

Regulatory benefits of assessing culture

In a recent FCPA Blog, founder Richard Cassin discusses how to prove compliance commitment to regulators.^[11] In the absence of formal elements, he provides insight into the importance of a company demonstrating commitment, especially in the eyes of employees. That's right—are your employees convinced of the corporate responsibility for preventing misconduct? Their voices could persuade regulators one way or the other. Being able to show commitment to an effective ethics program may be taken into consideration by government regulators. Information gained from cultural assessments may demonstrate sufficient commitment, especially if this knowledge is applied to improving the organizational culture over time.

Conclusion

Dysfunction in culture creates the risk of unethical behavior. Without the use of measurement tools, the question of the impact of implementation of an ethical code remains unanswered. Has progress been made to maintain or increase a values-based and ethics-driven culture? Focusing on this area and documenting steps taken to build a healthier culture will go a long way toward showing commitment.

Takeaways

- Organizations with authentic values and high ethical standards are more likely to attract and retain employees and customers.
- Demonstrated commitment to an effective, values-based ethical culture, including embedded codes of ethics, shows government regulators that a business is serious about avoiding misconduct and promoting ethical decision-making.

¹ Edgar H. Schein with Peter A. Schein, *Organizational Culture and Leadership*, 5th ed. (Hoboken, N.J.: Wiley & Sons, 2017).

² Ruth Steinholtz, "Putting respected research tools to work, example 1: Tools for cultural transformation: Barrett Analytics," Chap. 13 in *Culture Audit in Financial Services: Reporting on Behaviour to Conduct Regulators*, ed. Roger Miles, (London: Kogan Page, 2021), 315–333.

³ Steinholtz, "Putting respected research tools to work," 316.

⁴ Sean Peek, "A Culture of Ethical Behavior Is Essential to Business Success," *Business News Daily*, August 3, 2022, <https://www.businessnewsdaily.com/9424-business-ethical-behavior.html>.

⁵ Trust Edge Leadership Institute, *2022 Trust Outlook: Global Research Study*, accessed August 10, 2022, 20–21, <https://trustededge.com/the-research/>.

⁶ Isaac H. Smith and Maryam Kouchaki, "Building an Ethical Company," *Harvard Business Review*, November–December 2021, <https://hbr.org/2021/11/building-an-ethical-company>.

⁷ Patrick Quinlan, "Building An Ethics-First Employee Culture Is Crucial For All Leaders," *Forbes*, July 25, 2018, <https://www.forbes.com/sites/forbestechcouncil/2018/07/25/building-an-ethics-first-employee-culture-is-crucial-for-all-leaders/?sh=532488603479>.

⁸ Christopher Hodges and Ruth Steinholtz, *Ethical Business Practice and Regulation: A Behavioural and Values-Based Approach to Compliance and Enforcement*, (Oxford, England: Hart Publishing, 2017).

9 Barrett Values Centre, “Culture Assessment: Transform the Culture of Your Organization,” last accessed August 29, 2022, <https://www.valuescentre.com/tools-assessments/cva/>.

10 Steinholtz, “Putting respected research tools to work,” 316.

11 Richard L. Cassin, “How do you prove a commitment to compliance?” *The FCPA Blog*, August 11, 2022, <https://fcpablog.com/2022/08/11/how-do-you-prove-a-commitment-to-compliance>.

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