What is an ethical culture?
Key issues to consider in building an ethical organisation

A survey of NSW public sector agencies and local councils

Summary report

September 2000
This publication is available in other formats for the vision impaired upon request. Please advise of format needed, for example large print or as an ASCII file. This publication is also available on the ICAC website in HTML format, www.icac.nsw.gov.au

Acknowledgement of the ICAC’s work and resources is expected in anything that may be produced as a result of the use of this Report.

We would like to point out that the Kit for conducting an ethical culture survey, as discussed in this report, has been produced by the ICAC for use by New South Wales public servants in the New South Wales Public Sector.

ICAC web site address: www.icac.nsw.gov.au

© September 2000 - Copyright in this work is held by the Independent Commission Against Corruption. Part III Division 3 of the Commonwealth Copyright Act 1968 recognises that limited further use of this material can occur for the purposes of "fair dealing", e.g. study, research or criticism etc. However, if you wish to make use of this material other than as is permitted by the Copyright Act 1968 please write to the Independent Commission Against Corruption at GPO Box 500, Sydney, NSW, 2001.

ISBN  0 7310 7210 3
Table of contents

Introduction ......................................................................................................................................... 1
Why should organisations be concerned about their ethical culture? ............................................ 1
Definitions ........................................................................................................................................ 2
Perception versus behaviour ............................................................................................................... 2
How the survey was conducted by the ICAC - Methodology ............................................................ 5
Sampling .......................................................................................................................................... 5
Data collection .................................................................................................................................. 5
Analysis .......................................................................................................................................... 5

Summary of results ............................................................................................................................ 6

1. Behaviour of leaders...................................................................................................................... 9
   1.1. Perceptions about leaders’ behaviour .................................................................................. 10
   1.2. Leaders communicating about and encouraging honest behaviour .................................. 13
   1.3. Closed and open leadership styles ...................................................................................... 16
   1.4. Trust of leaders ..................................................................................................................... 18
   Summary and suggested action for leaders .................................................................................. 19

2. Features of the organisation ......................................................................................................... 22
   2.1. Knowledge of values and codes ......................................................................................... 23
   2.2. Internal reporting of wrongdoing ....................................................................................... 24
   2.3. The work environment .......................................................................................................... 26
   2.4. Co-worker behaviour ............................................................................................................ 27
   2.5. Workplace relationships ......................................................................................................... 28
   Summary and suggested action for leaders .................................................................................. 29

Conclusion ....................................................................................................................................... 31
What do leaders need to do to build and nurture an ethical culture? ............................................. 31
Is your organisation interested in conducting the Ethical Culture Survey? ..................................... 35

Ethical Culture Survey Kit ............................................................................................................... 36

References ....................................................................................................................................... 37

Acknowledgements ......................................................................................................................... 39
Table of figures

Figure 1: Ethical Culture Survey structure ................................................................. 4
Figure 2: Survey outcomes indicating key features most strongly linked to perceptions of an honest workplace ........................................................................................................ 8
Figure 3: Attitudes and perceptions that accompany the belief that superiors do not set a good example of honest behaviour ................................................................. 12
Figure 4: Attitudes associated with the perception that honesty is emphasised in the workplace ................................................................................................................ 15
Figure 5: Perceptions associated with greater trust of leaders ..................................... 21
Figure 6: Knowledge of values, codes and procedures associated with the perception that honesty is emphasised in the workplace ......................................................... 25
The ICAC’s Ethical Culture Survey

According to international management research (see the ICAC publication *Ethics - The Key to Good Management)*:

- the organisation has the potential to make an ethical person act unethically or an unethical person behave ethically, and
- the ethical culture of an organisation is critical to its performance.

This publication reports the results of a pilot study of the ICAC’s Ethical Culture Survey. The results:

- confirm the positive effects of a workplace which emphasises ethical practices, and
- identify the organisational features critical to building a strong ethical culture.

Ethical culture is able to be measured, understood and changed.

Measuring and understanding your organisation’s ethical culture is the critical first step to improving it.

The ICAC has produced an Ethical Culture Survey Kit which is intended to assist those who wish to conduct the Ethical Culture Survey in their organisation.

If you are interested in obtaining a copy of the ICAC Ethical Culture Survey Kit please contact the ICAC Research Section or Corruption Prevention and Education Unit on (02) 9318 5999 or 1800 463 909 (if calling from within NSW but outside of the Sydney metropolitan area).
Introduction

This report contains a summary of the results of the Ethical Culture Survey which was designed and conducted by the Independent Commission Against Corruption (ICAC).

Ethical tone or culture has traditionally been considered a difficult aspect of an organisation to understand or measure. To assist public sector organisations to measure aspects of their organisation which impact upon its ethical practices the ICAC has developed a survey based on findings in the organisational research literature (as outlined in the ICAC publication *Ethics - The Key to Good Management*). The primary aim was to create a tool which can help public sector managers to identify where the key challenges may lie in creating a strong ethical culture in their organisations. The areas which are explored in the survey are illustrated in Figure 1 on page 4.

Another aim of the survey research was to explore in an Australian context the findings of past research (primarily from the United States) about the relationships between different aspects of an organisation and how they impact on its ethical tone.

Past research findings (see *Ethics – The Key to Good Management*) have indicated relationships between levels of honesty in the workplace and:

- features of work teams such as how they are managed and team dynamics
- the behaviour of leaders
- leaders communicating about the importance of ethical decision-making in the workplace
- clearly stated missions and values
- rewards for desirable behaviour and sanctions for unethical conduct
- the existence and active promotion of procedures, rules and formal codes.

These groups of variables were, therefore, the main focus of the ICAC Ethical Culture Survey.

Why should organisations be concerned about their ethical culture?

The organisation has the potential to make an ethical person act unethically or an unethical person behave ethically.

It could be argued that the decision to behave unethically is an individual one, upon which the organisation has little bearing. However, research findings suggest that the "ability to see and respond ethically may be related more to attributes of corporate culture than to attributes of individual employees" (Chen, Sawyer & Williams, 1997, p. 856). The organisation is therefore a very powerful influence which has the potential to make an ethical person act unethically or an unethical person behave ethically.
Past international research (see the ICAC publication *Ethics - The Key to Good Management*) has found the ethical tone of an organisation to be an integral part of an organisation's functioning. For example, organisational culture and ethics research has shown that the ethical tone of an organisation impacts upon:

- efficiency and effectiveness
- decision-making processes
- staff commitment and job satisfaction
- staff stress
- staff turnover.

Making ethical practices a priority is not just about functioning with integrity or being seen to be functioning with integrity. Nor is it just about being credible and competitive. It is also about optimising the efficient functioning of the organisation. Organisations are, therefore, urged to make improving their ethical cultures a priority because focusing on ethics is a fundamental aspect of good management practices.

**Definitions**

The term ‘honest’ is used in the survey rather than ‘ethical’ because it was indicated by participants in the initial piloting of the survey that honesty was the more commonly used term to encapsulate the concept of integrity and right and wrong behaviour. The term ‘ethical’ was regarded as less clear and more technical and was, therefore, removed from the survey. The terms honest and ethical are used interchangeably in the report, but are intended to refer to the same broad concept of probity, integrity, or right and wrong behaviour.

The terms ‘immediate manager’ or ‘direct manager’ may be used to refer to the immediate supervisor. The terms ‘leader’ or ‘superior’ are used to refer to both immediate supervisors and senior executives as a group.

**Perception versus behaviour**

The survey generates a set of perceptions which people have about their organisation’s levels of honesty rather than an actual measure of the number of incidents of dishonesty. It seems safe to assume that how a person perceives or understands their environment would be a significant determinant of how they respond to or behave in their environment. Therefore, while perception surveys do not constitute an actual measure of a behaviour, they offer an indication of how a person may behave in their environment given certain perceptions. According to sociologist W. I. Thomas (cited in Coser, 1977, p. 521) “If men define situations as real, they are real in their consequences” suggesting that the meaning which is ascribed to a situation, more than the situational variables alone, determine the consequent behaviour.

The challenge then, is to create a survey situation in which respondents feel safe to indicate their true beliefs rather than what they think the favourable response may be. This was attempted in the current survey by:

- making the survey completely anonymous so that respondents could not be identified;
• giving respondents reply-paid envelopes which they mailed directly to the ICAC with assurances that their employer would not see their responses;
• giving respondents an ICAC contact number in case they wanted additional details or reassurance about the confidentiality of the survey;
• assuring respondents that they and their organisation were randomly selected rather than purposely targeted for participation;
• making participation voluntary;
• indicating that the provision of demographic details was optional.
Aim of the survey
To establish the key areas on which management need to focus in order to build an ethical workplace

Leadership and management behaviour

Communication about ethics

Features of the organisation

Impact of ethical tone on staff

Job satisfaction and attitudes to workplace

Ethical stress and tolerance of unethical practices

Trust and respect of leadership

Team dynamics

Commitment to the organisation

Perceptions about values in the workplace

Figure 1: Ethical Culture Survey structure
How the survey was conducted by the ICAC - Methodology

Sampling

Random sampling was used to obtain 10 NSW state agencies and 10 local councils. In order to obtain agencies and local councils of varying sizes and locations, agencies and local councils were grouped according to size and whether they were located in metropolitan or regional areas. Five of the 20 organisations declined to participate in the survey because they felt that their employees had participated in a number of internal surveys during the year and they did not wish to 'over-survey' employees. This left 15 organisations (7 local councils and 8 state agencies). Approximately 100 employees from each of the 15 organisations were randomly selected.

Data collection

A written questionnaire\(^1\) was distributed in the workplace to a random selection of 1314 public sector employees from eight NSW state agencies and seven NSW local councils. In total 915 questionnaires were returned resulting in a 70 per cent response rate, 497 respondents were from state agencies and 406 responses from local councils and 12 did not identify their workplace type.

Table 1: Response rates

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Surveys sent</th>
<th>Surveys returned</th>
<th>Percentage response</th>
</tr>
</thead>
<tbody>
<tr>
<td>State agencies</td>
<td>636</td>
<td>497</td>
<td>78%</td>
</tr>
<tr>
<td>Local councils</td>
<td>678</td>
<td>406</td>
<td>60%</td>
</tr>
<tr>
<td>Unidentified</td>
<td></td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1314</td>
<td>915</td>
<td>70%</td>
</tr>
</tbody>
</table>

The questionnaires were distributed in June, July and August 1999. Respondents were asked to complete the questionnaire within 5 working days and reply paid envelopes were provided. A reminder letter was sent to each participant two weeks after the initial survey was sent to them.

Analysis

The aim of the statistical analysis was to explore relationships between aspects of an organisation’s culture and perceptions of ethical behaviour in the organisation.

Data were analysed by the ICAC Research Section using SPSS 9.0 for Windows. The statistics used included descriptive statistics which mainly involved calculating percentages. Logistic regressions were used to assess whether particular attitudes or perceptions about the organisation predicted attitudes about levels of honesty in the organisation. A statistical significance level of \(\alpha=0.05\) was applied.

\(^1\) A copy of the questionnaire can be found in the Ethical Culture Survey Kit.
Summary of results

The survey findings indicated that features most strongly associated with perceptions of the workplace being honest included the:

1. behaviour of leaders
2. punishment of wrongdoing
3. existence and enforcing of organisational values, rules and rewards.

Diagrams are used throughout this report to illustrate the relationships between key features of the organisation which led staff to perceive the organisation to be more or less honest.

1. Behaviour of leaders

The behaviours associated with staff perceptions that their leaders were honest included:

• direct supervisors and senior executives being seen to act honestly and practise what they preach
• direct supervisors and senior executives encouraging and emphasising honest behaviour in the workplace
• direct supervisors allowing their staff to make decisions about how to conduct their own work and being encouraging of new ideas from staff
• direct supervisors and senior executives treating all staff fairly and equally.

2. Features of the organisation

(a) Punishment of wrongdoing

The most important aspects of handling of wrongdoing were found to be:

• appropriate action being taken and being seen to be taken when wrongdoing is reported
• appropriate action being taken against those who act dishonestly.

(b) Existence of organisational values, rules and rewards

The most important aspects of values, rules and rewards were found to be:

• the existence of rules and procedures which everyone is expected to follow
• the organisation being true to its stated values
• the organisation fostering the development of its staff.

Respondents who perceived that their organisation adhered to the above positive conditions not only reported perceiving that their organisation, its superiors and colleagues were more honest, they were also more likely to report:

• greater job satisfaction
• a greater willingness to stay in their job
• feeling safe and willing to express their opinions
• feeling safe to report wrongdoing
• better relationships with their direct supervisors and colleagues.

Respondents who perceived their organisation did not adhere to the above conditions were not only more likely to perceive their organisation, superiors and colleagues to be less honest, they also were more likely to report:

• being ashamed of their organisations
• being reluctant to express their own view points
• being fearful of their superiors
• negative relationships with their colleagues.
Figure 2: Survey outcomes indicating key features most strongly linked to perceptions of an honest workplace
1. Behaviour of leaders

1.1. Perceptions about leaders’ behaviour

1.2. Leaders communicating about and encouraging honest behaviour

1.3. Closed and open leadership styles

1.4. Trust of leaders
1.1. Perceptions about leaders’ behaviour

Past findings

According to past research, the behaviour and communication of leaders and managers in the organisation is critical to whether staff will behave ethically. For example:

- staff are more likely to do what they see their supervisor and particularly their senior managers doing than to adhere to ethical policy (Andrews, 1989)
- the most important determinant of unethical behaviour is the behaviour of managers (Lysons, 1989, in Badenhorst, 1994).

The impact of senior executives’ and managers’:
- behaviour
- communication and
- management styles

on perceptions of honesty in organisations were explored in the current survey.

Current findings

The perception that superiors acted in an honest manner was related to positive perceptions about the:

- working environment
- relationships with other staff, and
- trust and respect for both direct supervisors and the senior executive.

Overall, two-thirds of respondents said that they thought that their superiors set a good example of honest behaviour. When asked separately about their direct supervisor and senior executive, this perception improved markedly with 92% of respondents saying that their supervisors acted honestly all or most of the time, but only 78% saying the same about their senior executive.

Respondents who thought that their superiors did not set a good example of honest behaviour were also more likely to perceive that:

- dishonest behaviour went unpunished in their organisation
- their organisation was not true to its stated values
- their relationships with other staff were tense and guarded.
If the senior executive was not perceived to act honestly the respondent was more likely to also say that they feared the senior executive. The perception that the direct supervisor did not act honestly was associated with respondents’ saying they were unwilling to express their own opinions and a perception that dishonest behaviour was more likely to occur within the organisation.

Direct supervisors and senior executives practising what they preached was linked to the perception of their acting more honestly. If the direct supervisor was perceived not to practise what he or she preached respondents reported having:

- a lack of commitment to the organisation including admitting that they did not take notice of the code of conduct, and
- a perception that others had a lack of commitment to the organisation and looked out for their own interests.

Both supervisors and senior executives who were perceived not to practise what they preached were also perceived to treat some people unfairly and to be unwilling to explain their actions to staff.

If the senior executive was perceived to treat some people unfairly this was accompanied by other negative perceptions including:

- greater fear of the senior executive
- a perception that the senior executive was autocratic, and
- that dishonest behaviour went unpunished.

Similarly, perceptions that the immediate supervisor treated some people unfairly was accompanied by:

- a greater fear of the supervisor
- a perception of them having an autocratic style
- the perception that staff relationships were guarded.

The survey findings, therefore, indicate a relationship between a perceived lack of honesty of leaders and a number of other negative perceptions such as greater levels of dishonesty throughout the organisation. These relationships are summarised in Figure 3.
Figure 3: Attitudes and perceptions that accompany the belief that superiors do not set a good example of honest behaviour

NOTE: The arrows (→) are used to indicate when two factors are associated rather than one factor causing another.
1.2. Leaders communicating about and encouraging honest behaviour

Past findings

According to past research, whether leaders communicate about ethical behaviour is critical to whether staff will behave ethically. For example, both formal and informal statements from the CEO supporting ethical behaviour result in more ethical decisions being made by staff (Hegarty & Sims, 1979).

Current findings

The perceptions that supervisors and the senior executive encourage honest behaviour are accompanied by the perception that all staff, including management, act more honestly.

Overall, 79% of respondents said that the importance of doing work honestly was emphasised in their workplace. When asked specifically about their supervisors and the senior executive, 91% said that their direct supervisor encouraged honest behaviour all or most of the time and 87% said the same of their senior executive.

The perception that the senior executive encouraged honest behaviour was accompanied by other positive perceptions about the senior executive including that:

- they cared about the organisation, and
- the senior executive and other staff acted honestly.

Perceptions that the senior executive cared about the organisation were related to other positive perceptions such as:

- a greater respect for the senior executive and direct supervisor  
- feeling valued in the organisation, and  
- a perception of greater honesty in the workplace.

Supervisors who were perceived to care about the organisation were also perceived:

- as allowing their staff to make their own decisions  
- to encourage new ideas, and  
- as placing an emphasis on honest behaviour.
There were four important factors which were associated with the perception that doing work honestly was emphasised by the organisation’s leaders. These were that:

1. the organisation’s values were promoted
2. rules and procedures were enforced
3. reporting of wrongdoing was emphasised, and most importantly that
4. all the above were underpinned by the perception that the behaviour of leaders reflected what they said.

Effective communication in the above areas resulted in positive staff perceptions about:

- the levels of honesty of their leaders
- how they are treated by their immediate supervisors
- respect for leaders, and
- being valued in their organisation.

Those respondents who did not think that their supervisors encouraged honest behaviour had a number of other negative perceptions including:

- feeling ashamed of the organisation, and
- feeling at odds with the organisation's values and its staff.

Those respondents who thought their supervisor did not care about the organisation were also more likely to say they had not been told about the organisation's values or where to go to report wrongdoing.

The current survey results, therefore, reflect past research findings (reported in Ethics - The Key to Good Management) which indicate that communication about the importance of ethical behaviour by leaders has a positive impact upon the attitudes and behaviour of staff. These relationships are illustrated in Figure 4.
**Figure 4: Attitudes associated with the perception that honesty is emphasised in the workplace**

NOTE: The arrows (→→) are used to indicate when two factors are associated rather than one factor causing another.
1.3. Closed and open leadership styles

Past findings

Past research has indicated that leaders can influence group dynamics to either increase or decrease the likelihood of unethical decisions being made by the group. The features of 'closed' or 'directive' leaders which increase the risk of unethical decision-making by groups include that such leaders:

- do not encourage staff participation
- state their opinion at the beginning of a meeting
- do not encourage divergent ideas but encourage concurrence, and
- do not openly emphasise the importance of 'wise' or 'ethical' decisions.

Features of 'open' leaders who increase the potential for ethical decision-making by groups include that they:

- relinquish control
- invite and accept criticism of their own view
- act as advisors or facilitators
- encourage objections and doubts to be voiced, and
- establish a climate which is conducive to staff expressing their feelings and ideas.

(Neck & Moorehead, 1995)

Current findings

The current survey findings indicate a link between closed leadership styles and perceptions of diminished honesty in the workplace. Open leadership styles were associated with perceptions of greater honesty.

Respondents who perceived their supervisors to have qualities of 'closed', directive leadership were also more likely to believe that:

- dishonest behaviour occurred in their organisation
- their organisation's actual values were in conflict with its stated values
- some staff were treated unfairly
- people in their organisation looked out for their own interests.
These respondents were also more likely to say that they did not take much notice of the code of conduct and that they feared their supervisor.

Perceptions of the supervisor having qualities of an 'open' leader were accompanied by more positive perceptions about a number of other aspects of the workplace. For example, respondents who believed that their supervisor encouraged staff to make their own decisions about how best to do their work were also more likely to say that they were willing to:

- be open and honest with their supervisor
- trust their supervisor
- consult their supervisor about decisions.

Respondents who said that their supervisors were willing to make changes were more likely to say that the importance of honesty in the workplace was emphasised. They were also more likely to have greater overall positive impressions about:

- their colleagues
- their immediate supervisors, and
- the senior executive.

Supervisors who encouraged different ideas were perceived to be more honest and to place greater emphasis on honesty in the workplace.
1.4. Trust of leaders

Overall, 77% of respondents said they trusted their supervisor to do the right thing by them all or most of the time. Over one-half of respondents (57%) said the same about their senior executive. It is worth noting that greater trust was associated with the manager who had closer proximity to staff. That could suggest that a strategy for senior executives to gain greater staff trust may be to be more visible to staff and be seen to be a more integrated member of the workplace.

Those who did not trust their immediate supervisors were more likely to believe that their supervisors treated some people unfairly and that they were unwilling to explain their actions. Similarly, distrust of the senior executive was associated with the perception that the senior executive treated some people unfairly.

Greater trust of the senior executive was associated with greater respect, while a lack of respect for the senior executive was associated with greater fear of them.

Figure 5 presents a model which describes the relationship between all of the factors in the survey results associated with greater trust of leaders. Those factors which contributed to greater trust of leaders included:

- communication about values
- positive working conditions including encouraging staff to generate ideas, make decisions and develop their skills
- leaders’ behaviour reflecting what they communicate.

The above factors were associated with perceptions that leaders were honest and cared about the organisation which lead to greater trust and respect for leaders.

The ultimate result of greater trust and respect for leaders was that staff:

- felt valued
- had greater commitment and loyalty to the organisation
- felt more relaxed in the workplace
- had a greater willingness to be open and honest with leaders, and
- intended to stay in their job.

It could be surmised from the above that the effect of leaders who are perceived to be honest and trustworthy, are staff who are more committed and loyal to the organisation and, therefore, less likely to engage in behaviour which could harm the organisation.
Summary and suggested action for leaders

The survey findings indicate a relationship between a perceived lack of honesty of leaders and a number of other negative factors such as a greater level of perceived dishonesty throughout the organisation.

Other negative consequences which have been identified in past research as risk factors of unethical work cultures were borne out in the current survey results. These included respondents saying that they were more reluctant to speak out and less committed to the organisation when they perceived their leaders to be less honest. Dishonest leaders were perceived to be less likely to punish dishonest behaviour. While it is difficult to comment on the direction of the association, it could be postulated that if leaders are not seen to punish dishonest behaviour, this adds to the perception that they are themselves dishonest because they tacitly condone dishonest behaviour.

It can, therefore, be concluded from the survey findings, that perceptions about the levels of honesty of leaders is a critical indicator of the ethical health of an organisation.

The current survey results reflect past research which indicates that communication about the importance of ethical behaviour by leaders has a positive impact upon the attitudes and behaviour of staff. The survey results also indicate that leaders who are perceived to be honest and trustworthy have staff who say they are more committed and loyal to the organisation.

Suggested action

The following suggestions for action are extracts from Part 5 of the Ethical Culture Survey Kit entitled Organisational Integrity: Key Areas to Consider in Building an Ethical Workplace. The reader is referred to the above publication for greater detail about these suggested actions.

- Assess the quality of your organisation’s leadership. Consider conducting the ICAC Ethical Culture Survey to find out the strengths and weaknesses in the quality of the leadership in your organisation.

- Depending on your findings, check that other elements of the organisation support the aim for strong ethical leadership. For example, do leaders’ performance indicators require them to act ethically and promote high ethical standards and does the leadership training program have an ethical dimension?

- Consider the introduction of 360 degree feedback as part of your performance management system. This is often a useful way of checking ethical perceptions and trust between leaders and other staff.

- Assess the quality of the organisation’s communication, especially for messages about ethical behaviour.

- Consider reviewing some of the following documents for quality of communication about
ethics: communication policy; annual report; staff newsletter; code of conduct; guarantee of service; publications (especially those advising clients, contractors and suppliers of your organisation’s relevant procedures, values and expectations); complaints and grievance handling policies, procedures and records of results; website.

- Consider supplementing assessment with a survey of formal and informal communication channels to help identify dominant sources of information (both individuals and media), informal sources of power and influence, and gaps in, and obstacles to, effective communication.

Further reading:

ICAC publication

- *Building Organisational Integrity: The Importance of Leadership to Ethical Performance and Corruption Resistance.*
- *Organisational Integrity: Key Areas to Consider in Building an Ethical Workplace* in the Ethical Culture Survey Kit.
Figure 5: Perceptions associated with greater trust of leaders

NOTE: The arrows (→) are used to indicate when two factors are associated rather than one factor causing another.
2. Features of the organisation

2.1. Knowledge of values and codes
2.2. Internal reporting of wrongdoing
2.3. The work environment
2.4. Co-worker behaviour
2.5. Workplace relationships
2.1. Knowledge of values and codes

Past findings

Past findings indicate that the existence of formal codes, rules and sanctions have an important impact on the ethical tone of an organisation. For example:

- Threat of punishment is an effective deterrent to unethical behaviour (Hegarty & Sims, 1978)
- The existence of ethical codes and the existence of procedures, rules and defined roles were found to be related to greater perceived ethical behaviour (Ferrell & Skinner, 1988)
- The management of organisations with formal codes were perceived by their staff to have a greater concern for ethical conduct than were their counterparts in organisations with no codes (Rich, Smith & Mihalek, 1990)
- Codes alone do not stop unethical behaviour. They must be accompanied by clearly proposed sanctions if they are to minimise the likelihood of unethical behaviour (Laczniak & Inderrieden, 1987)
- Top management reprimands decreased the perceived ethical problems in an organisation but the existence of ethical codes alone was unrelated to the perceived extent of ethical problems (Chonko & Hunt, 1985).

Current findings

Overall, a high percentage of survey respondents said that they knew about their organisation's code of conduct, values, rules and procedures:

- 83% said they had been told about their organisation's values
- 92% said they knew about their code of conduct, and
- 91% said that everyone in their organisation was expected to adhere to rules and procedures.

The survey results indicated that knowledge about codes, values, rules and procedures was related to employee perceptions that their organisation:

- placed a strong emphasis on the importance of working honestly
- had high levels of honesty amongst the executive, supervisors and staff
- handled reports of wrongdoing appropriately
- treated staff in a fair manner, and
- had values which matched their own.
2.2. Internal reporting of wrongdoing

The majority of respondents (84%) said they knew where to go in their organisation to report wrongdoing. This represents a large increase from 1996 when 46% of public officials surveyed by the ICAC said they knew where to report corruption internally (ICAC, 1997). The percentages declined when respondents were asked specifically about whether they would feel safe to report; whether they were encouraged to report; and whether they thought their organisation would handle reports appropriately:

- 67% of respondents said they would feel safe to report wrongdoing
- 58% of respondents said reporting wrongdoing was encouraged by their organisation, and
- 51% of respondents believed their organisation would handle reports of wrongdoing appropriately. This figure has not changed significantly since 1996 when 49% of public officials surveyed by the ICAC said they thought their organisation would handle reports appropriately (ICAC, 1997).

Lack of knowledge about where to go to report wrongdoing or a lack of faith in how their organisation might handle reports were associated with the perceptions that dishonest behaviour occurred in their organisation and that it was likely to go unpunished.

Effective internal reporting mechanisms and appropriate handling of reports were integrally related to perceptions that honesty was an important aspect of how the organisation functioned. Those respondents who had positive perceptions about how they thought their organisation would handle reports of wrongdoing were also more likely to perceive that:

- their supervisors and senior executive acted honestly
- honesty was emphasised in their organisation, and
- they had positive work relationships with others in the organisation.
Figure 6: Knowledge of values, codes and procedures associated with the perception that honesty is emphasised in the workplace

NOTE: The arrows are used to indicate when two factors are associated rather than one factor causing another.
2.3. The work environment

Past findings

According to past research findings:

- individuals are likely to behave according to the group norms even though this may go against what they would do outside of the group setting (Bailey, Schermerhorn, Hunt, & Osborn, 1991)
- perceptions of peers' behaviour influences the likelihood of unethical behaviour occurring more than does the individual's own beliefs (Zey-Ferrell, 1979)
- highly cohesive or isolated workgroups may be problematic unless led by managers who encourage the expression and consideration of diverse views (Neck & Moorehead, 1995).

Current findings

In the current survey findings, the key aspect of the work environment associated with negative perceptions about the organisation or management practice was feeling isolated from the rest of the organisation. Over one-third of respondents (36%) said that they and their colleagues were isolated from the rest of the organisation. Those respondents who said that they were isolated from others in the organisation indicated:

- a greater reluctance to express different views from those of their colleagues
- a greater likelihood of being expected to do as they were told even if they did not think it was right (supervisors who were perceived to expect their staff to do as they were told were also more likely to be perceived to treat some people unfairly), and
- an increased perception of not being good at resolving conflict with colleagues.

A greater reluctance to express different views from those of colleagues was also associated with a number of other negative perceptions such as:

- a greater fear of their immediate supervisor and the senior executive
- a perception that the organisation's actual values were in conflict with its stated values
- not knowing where to go to report wrongdoing, and
- feeling that work relationships were guarded.

Encouraging competition between colleagues was also associated with increased negative perceptions. Respondents who said that their supervisor encouraged competition between colleagues were also more likely to perceive that their supervisor treated some people unfairly and that dishonesty was not properly punished in the organisation.
2.4. Co-worker behaviour

The vast majority of NSW public sector employees surveyed (92%) said that their colleagues behaved in an honest manner and that they would trust them to make honest decisions.

Beliefs about the levels of honesty of colleagues was less likely than beliefs about the honesty of leaders to be associated with overall perceptions about organisational values and levels of honesty.

While colleagues did not have as marked an impact as did leaders, positive perceptions about the levels of honesty of colleagues did, nevertheless, have some associations with positive views about others aspects of the workplace. For example, those who were more likely to say that:

- superiors were also more honest and trustworthy
- the organisation fostered opportunities to develop their skills
- they trusted the organisation to handle reports of wrongdoing appropriately
- people in their organisation were friendly
- their colleagues, supervisor and senior executive cared about the organisation
- they respected their colleagues, and
- they enjoyed their job.

Those who perceived that there was some dishonest behaviour amongst colleagues also expressed a reluctance to express their own opinions in the workplace and felt there was a conflict between their personal values and those of the organisation. They also tended to perceive that dishonest behaviour went unpunished in their organisation.
2.5. Workplace relationships

The relationship between perceptions of honesty in the workplace and the quality of work relationships was explored. Negative perceptions about work relationships were related to perceptions of diminished honesty in the workplace. For example, respondents who described their work relationships as hostile or unfriendly were also likely to say that they felt their personal values were in conflict with those of the organisation. People who perceived their workplace to be unfriendly also said that people tended to get away with dishonest behaviour in their workplace.

In addition, negative perceptions about work relationships tended to be accompanied by perceptions of autocratic styles of management and inadequate handling of dishonest behaviour. For example, respondents who described their work relationships as insincere also tended to:

- perceive their work relationships were backbiting, and
- say that they had to do as they were told regardless of whether they thought it was right.

The belief that people in the organisation looked out for their own interests was accompanied by perception that:

- their work relationships were backbiting
- some tended to get away with more than others, and
- the senior executive refused to explain his or her actions.

Trust of colleagues was associated with greater respect for colleagues. Perceptions of staff being co-operative and supportive were also associated with perceptions that staff were more honest.
Summary and suggested action for leaders

The survey results indicate that it is important for organisations to develop and promote clear and relevant values, codes of conduct, rules and procedures.

Effective internal reporting mechanisms and appropriate handling of reports of wrongdoing send a powerful message about the importance of honest work practices in the organisation.

The perception that dishonest behaviour occurred and went unpunished was associated with respondents saying that they were reluctant to express their own opinions and that they felt at odds with the organisation’s values.

Suggested action

The following suggestions for action are extracts from Part 5 of the Ethical Culture Survey Kit entitled Organisational Integrity: Key Areas to Consider in Building an Ethical Workplace. The reader is referred to the above publication for greater detail about these suggested actions.

- Examine your code of conduct to ensure that it is an agreed document which demonstrates the practical application of your organisation's core values. The code should also encourage shared responsibility for high ethical performance.

- Find out whether staff understand the role of codes, and if and how they use them.

- Promote your organisation’s code to clients and the community, not just to staff.

- Review your organisation's current training and development function to determine how effectively it contributes to the ethical culture.

- Consider reviewing the following documents:
  - ethics training and development policies
  - training packages
  - leadership and management training policies and programs.

- Periodically test the effectiveness of training programs. For example, consider a survey to find out whether staff understand the importance of values, ethical decision making, discussion of problems and disclosing conflicts of interest.

- Review systems to ensure that they translate the core values into action. Ensure that they are consistent and complementary throughout the organisation.

- Consider reviewing relevant systems documents for evidence that they enhance organisational integrity. For example: recruitment and selection policy and procedure; internal reporting, grievance, disciplinary, rewards and performance management policies and procedures.
• Review policies and procedures to ensure that they are practical documents which translate values into action. Ensure that they are consistent and complementary throughout the organisation.

• Consider reviewing operational policy and procedural documents (including gifts and benefits, conflicts of interest, secondary employment, procurement, contracting out as well as those relating to organisation specific functions), risk assessment reports.

• Avoid rigid, burdensome and overly bureaucratic policies and procedures as they may, in fact, encourage and perpetuate behaviours they seek to deter.

• Monitor policies and procedures for continued relevance. Staff will, sooner or later, circumvent a complex policy or procedure that becomes outmoded or unworkable. This may be justifiable in a one-off situation. But repetition can lead to the development of an organisational acceptance of a situation where individuals feel they can depart from or ignore standard policies and procedures. This can lead to the undermining of corruption prevention policies and degenerate into corruption.

Further reading:

ICAC publication

• Organisational Integrity: Key Areas to Consider in Building an Ethical Workplace in the Ethical Culture Survey Kit.
Conclusion

The importance of creating a workplace which emphasises and demonstrates ethical behaviour is confirmed by the current survey results. Relationships were found between perceptions of an ethical workplace and positive outcomes such as staff saying they:

- had better work relationships
- greater job satisfaction
- were less fearful to speak out
- were less likely to leave the organisation.

Conversely, staff perceptions that the workplace was less ethical or less honest were related to negative outcomes such as poor work relationships, fear of superiors and being unwilling to speak out.

The survey also identified the organisational features most closely associated with perceptions of an ethical workplace. These provide an important guide as to the critical areas upon which organisations should focus in creating an ethical culture.

What do leaders need to do to build and nurture an ethical culture?

The most critical aspect of creating an ethical workplace is the behaviour of leaders (both senior executives and managers): the perception that leaders were honest was associated with staff having positive perceptions about colleagues, their job, and the workplace as a whole.

Four critical courses of action for leaders wishing to build and maintain an ethical culture are to:

1. communicate about ethics though clearly stated values, codes, policies and procedures and by stating the importance of ethical work practices;
2. recognise and utilise the behaviour of leaders as a critical part of setting the ethical tone of the organisation;
3. practise good people management;
4. deal appropriately and effectively with wrongdoing.

1. Communicate about ethics

Leaders should communicate about the importance of ethical work practices

- An honest workplace was perceived to be one in which leaders were seen to encourage honest behaviour and behave in an honest manner themselves.
- The senior executive was perceived to be more honest if they encouraged staff to act in an honest manner.
Leaders should use tools such as codes of conduct and clearly stated values to communicate the organisation’s ethical stance

- Greater trust of the senior executive was associated with senior executives communicating the organisational values to staff.
- People who felt that their personal values were at odds with the organisation’s values wanted to work elsewhere.
- Those who felt their values were at odds with those of the organisation also perceived they had autocratic managers who encouraged competition between colleagues and did not emphasise the importance of honesty.
- Staff who knew about the code of conduct and the organisational values perceived that the senior executive were more encouraging of honest behaviour.
- A senior executive who was thought to care about the organisation was also perceived to encourage honest behaviour through the use of tools for guiding behaviour such as a code of conduct.

2. Recognise that how leaders behave is a critical part of communicating about ethics

Leaders should practise what they preach

- The senior executive was perceived to be more honest if they were perceived to practise what they preached.
- A senior executive who was thought to care about the organisation was also perceived to practise what he/she preached.
- Perceptions of a friendly workplace were associated with the belief that immediate supervisors practised what they preached.
- Perceptions that staff relationships were loyal were associated with perceptions of immediate supervisors being seen to practise what they preach.

Leaders should be willing to explain their actions whenever possible

- A senior executive who was willing to explain his/her actions was regarded as caring about the organisation and was associated with a more positive work environment in general.
- A senior executive who was perceived to be unfair was also perceived be unwilling to explain his/her actions.

Leaders should care about and be seen to care about the organisation

- Staff who perceived that the senior executive cared about the organisation also felt that they were more valued by the organisation.
3. Practise good people management

Leaders should ensure that staff are treated fairly and equally

- Fair treatment of staff was associated with greater trust of the senior executive and overall perceptions of higher levels of honesty in the workplace.
- Perceptions that staff relationships were loyal were associated with perceptions of staff being treated fairly.
- A relaxed work environment was associated with people perceiving that people were treated fairly.
- Staff who believed that rules and procedures were enforced perceived that the senior executive were more encouraging of honest behaviour.
- The perception that everyone was expected to stick to the rules and procedures was accompanied by a belief that staff were treated fairly.

Leaders should ensure that staff are and feel valued

- Those who intended to stay in their job felt that their work was valued by the organisation.
- Greater trust of the senior executive was associated with staff being given the opportunity to develop their skills.

Leaders should give staff discretion to make decisions about how they do their job

- A relaxed work environment was associated with people perceiving that they were given discretion to make decisions about how they did their job.
- A tense workplace was associated with people feeling they worked under a lot of time pressure and had little or no discretion as to how they did their job.

Leaders should not use fear as a tool for managing

- Greater fear of the senior executive was associated with them being perceived to be more dishonest.

Leaders should not create competition between staff because a competitive work environment can be counterproductive

- Immediate managers who were perceived to encourage competition between staff were also perceived to treat people unfairly.

Leaders should ensure that staff are not isolated because isolating staff from the rest of the organisation can be counterproductive

- Staff who felt isolated from the rest of the organisation also perceived their immediate supervisor to be more autocratic. They were less inclined to express their views and less sure about how they were expected to behave.
4. Deal appropriately and effectively with wrongdoing

Leaders should encourage reporting of wrongdoing and handle those reports well

- Staff who perceived that they were encouraged to report wrongdoing had a greater overall positive impression of the levels of honesty in the organisation.
- Greater trust of the senior executive was associated with staff being encouraged to report wrongdoing.
- Staff who said they felt safe to report wrongdoing perceived their senior executive to be honest.
- Perceptions of a friendly workplace were associated with the belief that reports of wrongdoing were handled appropriately.

Leaders should punish dishonest behaviour

- Perceptions of people in the organisation being dishonest were associated with the belief that people in the organisation got away with dishonest behaviour.
- The perception that dishonest behaviour was punished in the organisation was accompanied by the belief that honesty was emphasised and that the senior executive practised what they preached.
- An unfriendly workplace was also perceived to be one in which people were not punished for dishonest behaviour.
- A senior executive who did not punish dishonest behaviour was perceived to be unfair.
Is your organisation interested in conducting the Ethical Culture Survey?

It is recommended that organisations conduct the ICAC Ethical Culture Survey in order to identify the strengths and weaknesses of the organisation in the above areas. The ICAC has created an Ethical Culture Survey Kit to assist organisations who wish to conduct the survey.

Before conducting the survey:

1. obtain the Ethical Culture Survey Kit from the ICAC;
2. read the brochure on *Strategies for a Successful Survey* to determine whether your organisation has the capacity and readiness to conduct the survey;
3. read the ICAC publication *Ethics - The Key to Good Management* to remind yourself of the issues which the survey addresses;
4. feel free to customise the survey to suit your organisation’s specific needs. This may include removing, adding, or rewording certain questions to make the survey more relevant for your organisation.

After conducting the survey:

5. have the data input in an appropriate data package such as Excel or SPSS which will allow the calculation of percentage responses for each category of response in each question;
6. compare your organisation’s percentages with the benchmarking results reported in Part 4 of the Ethical Culture Survey Kit. But remember that the benchmarking data gives a snapshot of the average performance in the NSW public sector. Ultimately it is up to each organisation to decide what is an acceptable result for their organisation although a below average performance should always be treated as an indicator of a problem within the organisation and should be addressed.
7. refer to the document in the Ethical Culture Survey Kit entitled *Organisational Integrity – Key Areas to Consider in Building an Ethical Workplace* to assist you to address the areas you have identified from the survey results as requiring attention.

And remember, only conduct the survey if there is a genuine commitment to address the issues that it may uncover.
The ICAC has produced an Ethical Culture Survey Kit which is intended to assist those who wish to conduct the Ethical Culture Survey in their organisation. The kit contains:

- **Part 1**: A brochure *Strategies for a Successful Survey* about how to conduct a survey.

- **Part 2**: A paper copy of the Ethical Culture Survey entitled *Perceptions of your Workplace*.

- **Part 3**: A disc with a copy of the Ethical Culture Survey in Word 97 format.

- **Part 4**: A Report of Results of the Ethical Culture Survey which was conducted with a group of NSW public sector agencies and local councils. Interpretations of the results and benchmarking data are given.

- **Part 5**: *Organisational Integrity – Key Areas to Consider in Building an Ethical Workplace* to assist organisations to respond to the survey outcomes.
References


Independent Commission Against Corruption (ICAC) (2000) *Organisational Integrity: Key Areas to Consider in Building an Ethical Workplace, September.*


Acknowledgements

Project Team

The research was designed and conducted by Lisa Zipparo

Internal Review
Catherine Boardman
Vicki Klum
Stephanie Cooke
Jane Coulter
Angela Gorta
Nick Wolanin
Peter Stathis
Carolyn Grenville
Arianna Van der Meer