A Two-Factor Model of Ethical Culture

A CONCEPTUAL FRAME FOR ETHICAL SYSTEMS' CULTURE SURVEY

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Table of Contents

Making Progress in the Field of Business Ethics

Over the past 15 years, behavioral science has provided practitioners with a uniquely insightful perspective on the organizational elements companies need to focus on to build an ethical culture. Pieced together, this research can be used to address the growing challenges business must tackle today.

Faced with unprecedented complexity and rapid change, more and more organizations are feeling the limitations of an old-fashioned approach to ethics. In this new landscape, the importance of a proactive ethical stance has become increasingly clear. Not only is a strong focus on business integrity likely to reduce the costs of misconduct, but it can afford companies a solid corporate reputation, genuine employee compliance, robust governance, and even increased profitability.

The need for a smarter, deeper, and more holistic approach to ethical conduct is also strengthened by the inherent complexity of human behavior. As research continues to shed light on the factors that undermine people's ability to 'do the right thing,' we are reminded of how difficult it is to solve for ethics without addressing the larger challenge of organizational culture.

The components that shape the culture of an organization exercise a constant and unrelenting influence on how employees process information, make decisions, and, ultimately, respond to ethical dilemmas. This is why, in order to help business achieve a deeper and more systematic ethical focus, we must understand the ingredients that make up an ethical culture.

Understanding the Ingredients of an Ethical Culture

Consolidating major research on business integrity and ethical behavior, Ethical Systems has focused on measuring ethical culture in a valid and reliable way. This effort has entailed extracting the most important elements of culture measurement generated by academic research and subjecting these elements to additional empirical validation. Ten areas of assessment have resulted from this work. These areas clarify the do's and don'ts companies must address if they wish to build a strong focus on ethics.

The ten areas of measurement tap into key elements of culture, including leadership behavior, organizational ethos, social contract, individual perceptiveness, and employee response to observed misconduct. Because the measures across these dimensions were found to successfully predict unethical behavior, they are uniquely relevant to the objective of measuring ethical culture. That is, Ethical Systems' approach is different from an attempt to gauge culture with the more generic goal of simply surfacing common patterns of behavior across the organization.

As shown in Table 1, the ten areas of measurement can impact a company's focus on ethics in profound ways. Five areas capture the prerequisites business need to meet to develop a strong ethical orientation. We call them Disqualifiers because their presence undermines the emergence of a genuine focus on ethics. Companies that score high on the Disqualifiers present foundational weaknesses that should be addressed thoroughly and way before any other type of culture work is started.

The other five areas denote qualities and dynamics consistent with a robust ethical orientation. We call them Qualifiers because the higher a company scores on them, the stronger its ethical focus.

Culture Dimension	Disqualifiers	Qualifiers
Social Contract	Organizational Unfairness	Organizational Trust
Leadership Behavior	Abusive Manager Behavior	Ethical Leadership
Organizational Ethos	Selfish Orientation	Benevolent Orientation
Individual Perceptiveness	Lack of Awareness	Empathy
Response to Misconduct	Fear of Retaliation	Efficacy & Speaking Out

Table 1. A Two-Factor Model of Ethical Culture.

Not only are the five culture dimensions highlighted in the model necessary to characterize an organization's focus on ethics, but they are also important to understand the types of gut checks employees make to decide if the culture in which they work is ethical or not. According to ethical intuitionism, people use basic moral modules (e.g., fairness, care, loyalty) to determine if something is ethical.[1] Experiencing unfairness, abusive manager behavior, a selfish attitude, and/or retaliation will likely fail employees' elementary expectations about ethical conduct, leading them to conclude that their organization's culture is unethical. This, in turn, may have an impact on their level of moral engagement. In contrast, experiencing trust, ethical leadership, a caring attitude, and empathy will be consistent with expectations of ethical conduct, helping employees view their organization as being ethical. A review of the five dimensions follows below. See Appendix 2 for a full image of the framework.

Social contract refers to a set of shared perceptions about how the organization relates to people and people relate to each other. If employees are treated unfairly or observe the organization applying standards and policies in a way that shows preferential treatment, they'll likely experience organizational injustice and some level of dishonesty/hypocrisy. In contrast, if employees experience trust (the Qualifier in this category), the prevailing perception will be that the organization and its members will not harm each other. Tan and Tan (2000), for example, defined trust as "an employee's feeling of confidence that the organization will perform actions that are beneficial, or at least not detrimental, to him or her.[2]" That is, a social contract based on trust will likely strengthen the organization's ethical focus by reinforcing the perception of a shared code of conduct.

Leadership behavior captures the influence of leadership and management on the organization's ethics. Do leaders engage in behavior that strengthens or weakens a company's ethical orientation? This is a fundamental question as, traditionally, leadership has been associated with the ability to influence and motivate others (e.g., House, 1994; Mosley, Pietri, and Megginson, 1996).[3] Moreover, leadership

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[1] Graham, J., Haidt, J., Koleva, S., Motyl, M., Iyer, R., Wojcik, S. P., & Ditto, P.H. (2012) Moral foundations theory: The pragmatic validity of moral pluralism. Advances in Experimental Social Psychology.

[2] Tan, H. H., & Tan, C. S. (2000). Toward the differentiation of trust in supervisor and trust in organization. Genetic, Social, and General Psychology Monographs, 126(2), 241-260.

[3] House, R. J. (1994). Path-goal theory of leadership: Lessons, legacy, and a reformulated theory. The Leadership Quarterly, 7 (3), 323-352.

Mosley, D.C., Pietri, P.H. & Megginson, L.C., (1996). Management: Leadership in action (5th ed.). New York: Harper Collins Publishers.

can have a profound impact on how the organization's culture changes and evolves over time (Schein, 1992; Avolio & Avolio, 1993).[4]

Organizational ethos refers to deep-rooted beliefs that organizational members hold about themselves and others. This dimension overlaps with Arnaud's and Schminke's notion of ethical climate (2012)[5], encompassing basic assumptions about behavior (e.g., selfish vs. benevolent). Ethos runs deeper than what people perceive on the level of daily experiences and other transient factors. Selfish versus benevolent assumptions can affect how employees process information and respond to others. They can impact the priorities people set. And they can influence the way employees frame ethical dilemmas, use resources, and engage with each other.

Individual perceptiveness captures the level of insight individuals bring to bear upon ethical challenges. Awareness of ethical issues is a necessary precondition of ethical decision-making. Butterfield, Treviño, and Weaver (2000) defined moral awareness as "a person's recognition that his or her potential decision or action could affect the interests, welfare, or expectations of the self or others in a fashion that may conflict with one or more ethical standards.[6]" Lack of awareness is not only detrimental to one's ability to make ethical decisions, but also indicative of an immature culture. In contrast, empathy (the Qualifier in this category) underscores emotional and/or cognitive perspective-taking (McDonald & Messinger 2011)[7], foretelling a more thoughtful and mindful response to ethical challenges.

Response to misconduct is an area that highlights how people react when they observe unethical behavior. Because this dimension is immediately relevant to ethical outcomes, it can be viewed as an acid test of a company's ethical focus. Do people fear retaliation? Do they feel a sense of agency over ethical outcomes? Do they speak up if they observe misconduct? A culture grounded in ethics presupposes that employees perceive a certain level of control over ethical outcomes, and that there exist resources that can help them take action against unethical occurrences. In contrast, if people fear retaliation, the organizational culture will probably lack key ethical components (Mayer, Nurmohamed, Treviño, Shapiro, & Schminke, 2013)[8], making it all the more difficult for employees to report misconduct and actively contribute to a strong ethical focus.

Each of the five areas of measurement in the Dual-Factor Model is characterized by a Disqualifier and a Qualifier. A company's standing across the five areas must be understood in relation to both the

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[4] Schein, E.H. (1992). Organizational culture and leadership (2nd ed.). San Francisco: Jossey-Bass.
Avolio Howell, J.M. and Avolio, B.J. (1993). Transformational leadership, transactional leadership, locus of control and support for innovation: Key predictors of consolidated business unit performance. Journal of Applied Psychology, 78, 891-902.

[5] Arnaud, A., & Schminke, M. (2012). The ethical climate and context of organizations: A comprehensive model. Organization Science, 23(6), 1767-1780.

[6] Butterfield, K. D., Treviño, L. K., & Weaver, G. R. (2000). Moral awareness in business organizations: Influences of issue-related and social context factors. Human Relations, 53, 981–1018.

[7] McDonald N.M., Messinger D.S. (2011) The development of empathy: how, when, and why. In: Acerbi A., Lombo J.A., Sanguineti J.J., (Eds.). Free Will, Emotions, and Moral Actions: Philosophy and Neuroscience in Dialogue. IF Press; Vatican City: 2011.

[8] Mayer, D.M., Nurmohamed, S., Treviño, L.K., Shapiro, D. L. Schminke, M. (2013). Encouraging employees to report unethical conduct internally: It takes a village. Organizational Behavior and Human Decision Processes, 121, 89–103.

Qualifiers and the Disqualifiers. Two questions are critical in this respect: 1. Does the company meet the minimum requirement in each area? 2. If it does, how effectively is the company building ethical assets across the five dimensions of ethical culture? A discussion of the psychological and behavioral underpinnings of the Disqualifiers and Qualifiers follows below.

The Disqualifiers: Meeting Minimum Requirements

Let's imagine being at the helm of a newly founded company and having to make sure the culture is imprinted with a strong ethical orientation. What are the dynamics and practices we need to avert or stave off in order to set the right foundations? This is what the Disqualifiers highlight—the don'ts companies must avoid if they wish to foster an ethical culture. The guidance the model provides in this respect is straightforward: Organizations should minimize all five Disqualifiers because each of them, one way or the other, is at odds with basic moral expectations. Not only will companies that score high on the Disqualifiers be viewed as having weak business ethics, but they will lack the foundations on which strong ethical practices are built.

Organizational Unfairness

Research indicates that employees are likely to pay attention to how the organization distributes outcomes and resources, as well as to how organizational processes and policies are implemented (Lind & Tyler, 1988).[9] Distributive and procedural unfairness can cripple a company's attempt to build a strong ethical culture for a variety of reasons:

1. Justice operates as a basic motive (Tyler, 1991),[10] raising the symbolic meaning and evaluative relevance of any form of unfairness people experience at work;
2. Procedural and interactional injustice violate shared expectations of reciprocal moral obligations (Cropanzano, Goldman, & Folger, 2003)[11];
3. When agreed-upon rules and procedures are violated, people feel a loss of personal control (Cropanzano, Rupp, Mohler, & Shminke, 2001),[12] as well as a threat to their social status (Tyler and Blader, 2000)[13].

Because organizational unfairness endangers basic motives, contradicts shared obligations, and portends negative personal consequences for employees, its performance as a Disqualifier of ethical culture should be monitored closely.

Abusive Manager Behavior

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[9] Lind, E. A., & Tyler, T. R. (1988). The social psychology of procedural justice. New York: Plenum Press.

[10] Tyler, T.R. (1991). Psychological models of the justice motive: Antecedents of distributive and procedural justice. Journal of Personality and Social Psychology, 67, 850–863.

[11] Cropanzano, R., Goldman, B., Folger, R. (2003). Deontic justice: The role of moral principles in workplace fairness. Journal of Organizational Behavior, 24, 1019-1024.

[12] Cropanzano, R., Rupp, D. E., Mohler, C. J., & Schminke, M. (2001). Three roads to organizational justice. In J. Ferris (Ed.), Research in Personnel and Human Resources Management (Vol. 20, pp. 1-113). Greenwich, CT: JAI Press.

[13] Tyler, T. R., Blader, S. L. (2000). Cooperation in groups: Procedural justice, social identity, and behavioral engagement. Philadelphia: Psychology Press.

Abusive manager behavior entails the inappropriate exercise of managerial power over employees. Ashfort (1997)[14] used the term "petty tyranny" to capture a constellation of abusive behaviors, such as arbitrary decision-making, employee belittlement, intolerance of dissent, and capricious punishment. Keashley, Trott and McLean (1994)[15] highlighted the harmful emotional impact of abusive manager conduct—such as yelling, humiliating, using derogatory terms, backstabbing, and so on—on the employee's sense of competence and/or self-esteem. Behavior that falls in this category is unethical because it violates shared norms. It is unfair because it is enacted as a result of a power differential. And it is abusive because it causes harm in a context in which the target doesn't have adequate control over the means, processes, and resources needed to rectify the situation.

In addition to being a blatant breach of interactional justice, this type of conduct can have an enduring negative impact on the organization's culture due to the influential role managers play on their employees' work life. Even when ethical leadership trickles down from the top (Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009),[16] it may be hard for people to discount the behavior of an abusive manager and the negative consequences that ensue from an experience that has such moral intensity[17]. It is also difficult for the organization to control the negative learning that takes place when people observe a consistently unethical model of conduct (Bandura, 1978)[18]. Finally, if the manager's behavior goes unpunished, employees may easily conclude that the organization doesn't place much value on ethics.

Selfish Orientation

A selfish orientation entails putting one's own interests and gains before those of others (Palmer, 2000)[19]. In an organizational culture with such an orientation, people are predominantly concerned with securing and/or protecting personal outcomes. For example, employees may believe that their own survival and tenure in the organization requires defending their own turf above all else.

Though a focus on individual results doesn't have to be at odds with ethical outcomes (Lu, Zhang, Rucker, & Galinsky, 2017)[20], selfish motives, such as the desire for rewards or social status, can increase the likelihood of unethical behavior (Edelman & Larkin, 2015; Kern & Chugh, 2009)[21]. Furthermore, they

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[14] Ashforth B.E. (1997). Petty tyranny in organizations: A preliminary examination of antecedents and consequences. Canadian Journal of Administrative Sciences, 14, 126-140.

[15] Keashly L., Trott V., MacLean L.M. (1994). Abusive behavior in the workplace: A preliminary investigation. Violence and Victims, 9, 125-141.

[16] Mayer, D. M., Kuenzi, M., Greenbaum, R., Bardes, M., & Salvador, R. (2009). How low does ethical leadership flow? Test of a trickle-down model. Organizational Behavior and Human Decision Processes, 108, 1–13.

[17] Jones, T. M. (1991). Ethical decision-making by individuals in organizations: An issue-contingent model. Journal of Communication, 28 (3), 12–29.

[18] Bandura, A. (1978). Social learning theory of aggression. Journal of Communication, 28 (3), 12–29.

[19] Palmer, A. (2000). Cooperation and competition: A Darwinian synthesis of relationship marketing. European Journal of Marketing, 34(5/6), 687–704.

[20] Lu, J., Zhang, T., Galinsky, A. D., Rucker, D. D. (2017). On the distinction between unethical and selfish behavior. Atlas of Moral Psychology.

[21] Kern, M. C., & Chugh, D. (2009). Bounded ethicality: the perils of loss framing. Psychological Science, 20(3), 378–384.
Edelman, B., & Larkin, I. (2015). Social comparisons and deception across workplace hierarchies: Field and experimental evidence. Organization Science, 26(1), 78–98.

may dilute the organization's effort to create a shared ethos and successfully align self- and organizational interests.

The negative effect of a selfish orientation on a company's ethos and risk of misconduct will manifest in different ways. For example, if people are predominantly driven by self-interest, they may choose to ignore what is right to achieve what is most beneficial to them. Or, they may fail to hold others accountable, should that entail a cost or get in the way of a gain. Or, they may gloss over ethical problems that are not immediately relevant to their goals. In this type of organizational environment, the beliefs, assumptions, and values that govern individual action and decision-making are centered upon what is right and good for oneself, rather than what is right and good for all.

Lack of Awareness

Moral awareness—the ability to recognize the moral implications of a challenge, situation and/or decision—is a critical component of moral reasoning and ethical decision-making (Rest, 1986; Clarkeburn, 2002)[22]. This is why lack of awareness is a Disqualifier of ethical culture. If employees cannot discern the ethical nature of certain issues, the organization is missing a key ingredient to build a strong ethical focus. Not only will people lack the resources to contribute to the organization's discourse on ethics, but they will be less likely to engage in ethical decision-making (Treviño, 1986)[23].

The detection of low ethical awareness among employees is also an indication that the culture, as the system of formal and informal levers that regulate and foster ethical conduct (Brown & Treviño, 2006; Kaptein, 2008)[24], is not operating as it should. Even if people had little moral sensitivity to begin with, an organization committed to ethics would take action to raise employees' awareness of ethical issues through conversations, training, communications, and other interventions.

Fear of Retaliation

What does it mean for people to fear retaliation? It means that they expect that others in the organization (e.g., managers, colleagues) will inflict negative consequences on them, should they report an ethical breach. That is, fear of retaliation underscores the belief that some stakeholders may engage in unethical behavior to silence employees who speak out—an expectation squarely at odds with an ethical culture. As such, this Disqualifier should be used as a *prima facie* indicator of the organization's ethical orientation. Not only does fear of retaliation signal the presence of bad behavior, but it also suggests that those good behaviors that foster ethical conduct are less likely to occur. For example, when fear of retaliation is widespread, employees will be less likely to hold each other accountable. As a result, they may avoid raising important questions about ethical issues, downplay their managers' guidance, or discount the value of E&C training. As noted by Mayer et al. (2003), it takes a village to

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[22] Rest, J.R. (1986). Moral Development: Advances in research and theory. New York: Praeger.
Clarkeburn, H. (2002). A test for ethical sensitivity in science. Journal of Moral Education, 31(4), 439–53.
[23] Treviño, L. K. (1986). Ethical decision-making in organizations: A person-situation interactionist model. The Academy of Management Review, 11(3), 601-617.
[24] Brown, M. E., Treviño, L. K., (2006), Ethical leadership: A review and future directions. The Leadership Quarterly, 17, 595–616.
Kaptein, M. (2008). Developing and testing a measure for the ethical culture of organizations: The corporate ethical virtues model. Journal of Organizational Behavior, 29, 923–947.

create a culture in which people feel comfortable speaking up. That starts with eliminating all type of retaliatory behavior in the workplace.

The Qualifiers: Building Ethics in Organizations

If the Disqualifiers highlight the practices and dynamics an organization must avoid in order to build an ethical culture, the Qualifiers clarify what companies need to do to foster a strong ethical orientation. Keeping the Disqualifiers at bay while nurturing the Qualifiers is the most effective strategy to achieve a culture grounded in ethics. Not only are the Qualifiers consistent with intuitive modules people use to evaluate whether the culture is ethical or not (e.g., fairness, care, loyalty, etc.), but they are instrumental to the creation of a strong focus on ethics.

Organizational Trust

Trusting relationships are key to an ethical culture. When an individual is perceived as trustworthy, this means that people have confidence in her ability, benevolence, and integrity (Mayer, Davis, & Shoorman, 1995)[25]. If trust is prevalent in the organization, people are more likely to hold positive expectations about each other's reliability, motivations, and conduct (Korsgaard, Brower & Lester, 2015)[26].

This positive climate can help employees take risks when working with each other, letting trust fill the gaps. And this is why trust is a Qualifier of ethical culture: It makes it easier for organizational members to care about each other; it demands a shared commitment toward the same rules; it encourages a sense of moral obligation toward the law (Lilly, Duffy, & Wipawayangkool, 2016)[27]. In short, when organizational trust is high, employees are more concerned with doing the right thing because they know that others are taking risks with them and they are taking risks with others.

Ethical Leadership

Given that employees look for ethical guidance, leaders who consistently engage in ethical conduct can play an influential role on the culture of the organization (Brown, Treviño, & Harrison, 2005)[28]. In particular, leaders who become legitimate role models by demonstrating honesty, considerateness, and fairness have the personal assets to convincingly steer the organization's focus towards ethics (Brown et al., 2005).

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[25] Mayer, R. C., Davis, J. H., & Shoorman, F. D. (1995). An integrative model of organizational trust. The Academy of Management Review, 20 (3), 709-734.

[26] Korsgaard, M. A., Brower, H. H. & Lester, S. W. (2015). It isn't always mutual: A critical review of dyadic trust. Journal of Management, 41(1), 47-70.

[27] Lilly, J., Duffy, J.A., & Wipawayangkool, K. (2016). The impact of ethical climate on organizational trust and the role of business performance: If business performance increases, does ethical climate still matter? Institute of Behavioral and Applied Management, All Rights Reserved.

[28] Brown, M. E. Treviño, L.K., Harrison, D. A. (2005). Ethical leadership: A social learning perspective for construct development and testing. Organizational Behavior and Human Decision Processes, 97,117–134.

But ethical leadership does not stop at demonstrating integrity (Hogan, Curphy, & Hogan, 1994)[29], caring for employees (Howell & Avolio, 1992)[30], and applying fair standards (Tyler, 1986; Tyler & Degoey, 1995)[31]. It also requires making ethical principles salient and prominent, engaging in constructive two-way communications on ethical issues (e.g., speaking with and listening to employees), taking responsibility for both good and bad results, and holding people accountable to ethical standards (Brown et al., 2005).

Having leaders commit to these behaviors pays off. Not only does ethical leadership lead to a host of positive outcomes (e.g., satisfaction with leadership, perceived leader effectiveness, employee dedication, organizational identity, employee self-efficacy, etc.), but it reduces the risk of negative ones (e.g., employee deviant behavior, misconduct, etc.). This is why ethical leadership is a key Qualifier of ethical culture: It is a foundational system that organizations must cultivate if they wish to be ethical.

Benevolent Orientation

A benevolent orientation indicates a concern with the common good: People are not simply interested in themselves, but are also focused on how the organization and their actions within it may affect others, and even society at large. Such an orientation is instrumental to an ethical culture because it redefines what is good and right in less myopic and selfish terms.

The positive impact of a benevolent orientation can be multifold. When people make decisions that have ethical implications, they use criteria and frames. The criteria they use (i.e., egoism, benevolence, principled-ness) and the frames they apply (i.e., impact on self, peers, or society at large) will affect how ethical issues are treated and resolved (Victor & Cullen, 1988)[32]. This is why organizations that cultivate a benevolent orientation are positioned to achieve a higher level of moral development. They may embrace a larger, more complex purpose, ponder challenges from different angles, and tackle ethical questions with greater humility and openness. This, in turn, can help employees avoid petty and parochial ways of thinking, strengthening their moral sensitivity and deepening their awareness in the face of new challenges and dilemmas.

Empathy

Empathy, the capacity to take perspective and put oneself in other people's shoes, works as an ego-depleting state in which people engage by choice, according to the most recent research (Cameron, Inzlicht, & Cunningham, 2015)[33]. If empathy is the ability to put oneself into the shoes of others,

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[29] Hogan, R., Curphy, G. J., & Hogan, J. (1994). What we know about leadership: Effectiveness and personality. American Psychologist, 49, 493–504.

[30] Howell, J. M., & Avolio, B. J. (1992). The ethics of charismatic leadership: Submission or liberation. Academy of Management Executive, 6, 43–54.

[31] Tyler, T. R. (1986). The psychology of leadership evaluation. In H. W. Bierhoff, R. L. Cohen, & J. Greenberg (Eds.), Justice in Social Relations. NY: Plenum.

Tyler, T. R., & Degoey, P. (1995). Collective restraint in social dilemmas: Procedural justice and social identification effects on support for authorities. Journal of Personality and Social Psychology, 69, 482–497.

[32] Victor, B., & Cullen, J. B. (1987). A theory and measure of ethical climate in organizations. Research in Corporate Social Performance and Policy, 9, 51–71.

[33] Cameron, D., Inzilicht, M., Cunningham, W. A. (2015). Empathy is actually a choice. New York Times, July 10, 2015.

cognitively and/or emotionally, and if it is a deliberate behavior that bears personal costs, it must entail a deeper state of awareness.

First, people must become responsive to their surroundings to choose to care. Second, the cognitive and emotional shift that allows an individual to take on another person's experience or perspective requires a non-trivial level of presence and reflection, as suggested by the ego-depleting effects empathy has been found to have on people.

This is why empathy works as a Qualifier of ethical culture. If employees are empathetic, they are more apt to take cognitive and emotional perspective. This, in turn, can help them evaluate what is at stake from the vantage point of others and more fully consider the impact of their behavior on their peers and the organization. That is, their moral and ethical focus is bound to grow and develop, opening the way to the organization's own moral development and ethical growth.

Efficacy & Speaking Out

In an ethical culture, not only is doing the right thing the appropriate, normative standard, but people should feel confident that they can exercise meaningful agency over the achievement of ethical outcomes. This is why efficacy, the perception that one can have a positive influence on ethical occurrences, and speaking up, the act of reporting ethical issues or breaches, are critical Qualifiers.

Together, these two elements are characteristic of an organizational environment in which employees can take action to stop and/or prevent instances of unethical behavior. Efficacy, in particular, suggests that the culture provides employees with internal and external resources (Bandura, 1997)[34] that increase their control over the organization's ethics. In this context, speaking up, a potentially costly course of action due to the challenge it poses to authority and/or peer loyalty, underscores a person's choice to exercise control. Despite the social costs of 'snitching', people who care about the organization's ethics and who believe that their action can help correct course will speak out and take other steps to counter an unethical outcome.

Conclusions

The Two-Factor Model clarifies the dimensions and areas organizations must monitor, measure, and manage to foster a culture built on ethics. The model offers specific guidance for designing systems that create a strong ethical focus, highlighting both Disqualifiers and Qualifiers of ethical culture.

The Disqualifiers operate as minimum requirements. They represent the ethical debt companies must pay off in order to create the foundations for a strong ethical focus. In contrast, the Qualifiers embody the active investments organizations need to make to build ethical assets upon those foundations.

We recommend that companies, small and large, use the model to measure and manage their culture proactively. This, in turn, will help them reap a host of positive benefits. As our analyses suggest, keeping the Disqualifiers low and increasing the level of the Qualifiers is likely to reduce the occurrence

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[34] Bandura, A. (1997). Self-efficacy: The exercise of control. New York: Freeman.

of various types of unethical conduct. For example, our results showed that both Disqualifiers and Qualifiers affected important outcomes, such as concealing wrongdoing, lying to supervisor, stealing from company, falsifying reports, etc. These results are important because they demonstrate the tangible ways in which the model can benefit companies that are committed to strengthening their ethical orientation.

In addition, we also found that both the Qualifiers and the Disqualifiers highly correlated with ethical decision-making, a critical outcome for organizations that wish to reduce their risk of misconduct. Treviño (1986)[35] framed ethical decision-making as a key antecedent of ethical behavior. Similarly, Hunt and Vitelli (1986)[36] offered a model according to which ethical judgement affects intentions, which, along with situational constraints, shape behavior. Dubinsky and Loken (1989)[37] also highlighted the impact of ethical decision-making on intentions and behavior. All in all, these frames corroborate the notion that an individual must be able to make ethical decisions in order to behave ethically. The first and most fundamental contribution an ethical culture can make, therefore, has to do with increasing the likelihood of ethical decision-making among employees.

Finally, a strong ethical focus will also have a positive impact on employees' organizational commitment—a key precursor of employee engagement and loyalty. Several studies found a positive relationship between ethical culture and/or ethical climate and organizational commitment (Khoung & Nhu, 2015; Moore & Moore, 2014; Cullen, Parboteeah, & Victor, 2003)[38], highlighting the beneficial impact that a culture focused on ethics is likely to have on employees' attitudes and their loyalty to the organization.

Though ethical cultures are not built overnight, the systematic and methodical application of the guidance and insights the Two-Factor Model provides can advance corporate practices in meaningful and remarkable ways. Not only will organizations that heed the advice offered by the model be more likely to build strong ethical assets, but they will be better positioned to achieve sustainable long-term growth.

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[35] Treviño, L. K. (1986). Ethical decision-making in organizations: A person-situation interactionist model. Academy of Management Review, 11, 601-617.

[36] Hunt, S. D., & Vitell, S. (1986). A general theory of marketing ethics. Journal of Macromarketing, 6(1), 5-16.

[37] Dubinsky, A. J., & Loken, B. (1989). Analyzing ethical decision making in marketing. Journal of Business Research, 19(2), 83-107.

[38] Khuong, M. N., & Nhu, N. V. Q. (2015). The effects of ethical leadership and organizational culture towards employees' sociability and commitment–A study of tourism sector in Ho Chi Minh City, Vietnam. Journal of Advanced Management Science, 3(4), 329-336.

Moore, H. L. & Moore, T. W. (2014). The effect of ethical climate on the organizational commitment of faculty members. Journal of Academic and Business Ethics, 9, 3-15.

Cullen, J. B., Parboteeah, K. P., & Victor, B. (2003). The effects of ethical climates on organizational commitment: A two-study analysis. Journal of Business Ethics, 46(2), 127- 141.

Appendix 1 (Research Process & Methodology)

In 2016 and 2017, a team of researchers collaborating with Ethical Systems, a research collaboration housed at the NYU-Stern School of Business, convened to determine the appropriate constructs for what constitutes ethical culture. The project consisted of two phases: 1) the team first determined which are the most important constructs and outcomes to be assessed at an organization, and then created a survey-based culture assessment that draws from the existing academic literature and; 2) the team then collected data on the initial survey measures through pilot studies in two companies, as well as through company-agnostic online surveys (where respondents indicated which types of companies they worked for, but did not disclose the name or other details). The data from these studies has been used to develop a framework for ethical culture in organizations, which we describe in this paper.

The team of researchers who comprised the Ethical Systems culture working group are social scientists who have each studied certain components of ethical culture.[39]

In the first phase, the working group conceptualized the relevant constructs of ethical organizational culture (e.g., fairness, trust, etc.). They then reviewed the academic literature to collect corresponding measures (i.e., survey items). Validated survey measures did not yet exist in the literature for every component that the team wished to measure. A literature review and summary of the existing measures in the academic literature is beyond the scope of this paper, but can be found in Treviño, Haidt, & Filabi (forthcoming, 2018).

Based on this initial research, the group then designed a survey for pilot testing that drew from these measures, and also included additional measures for constructs they wished to validate. The survey was designed to assess the ethical culture of an organization, specifically attempting to uncover the mindsets and behaviors. As such, respondents were asked about various components of ethical culture including their observations of misbehavior in the workplace (e.g., stealing from the company, violating the Code of Conduct, etc.). The data collected comprised of 1,358 respondents. All respondents first completed general demographic information (gender, seniority in the company, tenure), including their geographic location and function in the organization. Next, respondents completed the pool of culture survey items developed in phase one. The order of assessment for the constructs was randomized, as were the order of items for each individual construct.

The data was then analyzed for reliability of each of the individual constructs, and composite scores were created for those constructs that were assessed with multiple items. The researchers used linear regression to assess the predictive utility of each culture construct on the following outcomes: 1) observations of misconduct in the workplace; 2) ethical decision-making; and 3) employee commitment to the organization. Each of these outcomes adds value to the goals of an organization. Ethical decision-making is a critical outcome because it is a key antecedent to ethical behavior. Employee commitment is a precursor to employee engagement and loyalty, and thus reduced employee turnover. And finally, observations of misconduct provide evidence of corruption and unethical behavior. For purposes of these pilot tests, employees were asked about observations relating to violations of workplace policies and codes generally, as well as observations of specific misconduct in the workplace

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including behaviors such as padding an expense account, giving kickbacks, sexual harassment, misuse of confidential (or insider) information, among a list of approximately 30 others.

Appendix 2 (Framework Image)