SHRM®

SOCIETY FOR HUMAN RESOURCE MANAGEMENT

Research Quarterly

Business Ethics:
The Role of
Culture and
Values for an
Ethical Workplace

Whether in **domestic or global companies**, ultimately, the commitment to business ethics and **the foundation** is built through **organizational culture**, with **ethical values** reflected in the workplace.

Business Ethics: The Role of Culture and Values for an Ethical Workplace

Abstract
An ethical workplace is established through an organization's culture, values and leadership. To promote ethical behavior, human resource professionals, people managers and senior management need to be knowledgeable about business ethics—from leadership, codes of conduct and related legislation to compliance training, ethical decision-making, and cultural and generational differences around ethics. Transparency, fairness and communication are key for establishing and maintaining an ethical workplace.

Introduction

In the business world today, issues of trust, respect, fairness, equity and transparency are gaining more attention. Business ethics includes organizational values, guidelines and codes, legal compliance, risk management, and individual and group behavior within the workplace. Effective leadership, with open dialogue and thoughtful deliberation, develops the foundation of an ethical workplace, is woven into the fabric of the organizational culture and is mirrored in ethical decision-making. Toward this end, all organizational leaders have a key role in establishing corporate values and modeling ethical behavior for their workforce, organization and community.

The importance of ethical leadership has grown exponentially. A 2009 special report from the Business Roundtable Institute of Corporate Ethics and the Arthur W. Page Society focuses on the issue of leadership and trust. *The Dynamics of Public Trust in Business—Emerging Opportunities for Leaders* emphasizes that trust is a critical factor in business. The report points out that "even in the best of times, the dynamism of trust requires continual monitoring and rebalancing as economic and social situations change." Companies can create positive business ethics by generating goodwill, communicating openly and taking advantage of opportunities for leaders to create value based on a foundation of accountability, responsibility and integrity. Ultimately, trust—through good business ethics—"positively impacts business success in a number of critical areas, such as employee performance, customer retention and innovation."[1]

While not inclusive of all aspects of business ethics, this research article focuses on organizational culture and values as integral in the foundation of an ethical workplace. The primary audiences—human resource professionals, people managers and senior management—will find this article useful to thoughtfully consider the state of business ethics in their respective companies, identify related challenges and opportunities, and rethink how better to communicate, restructure and/or reframe policies and practices that influence the organization's ethical stance.

Business Imperative

Organizational culture and ethical leadership are at the core of business ethics. Each shapes and reinforces corporate values, and influences employee attitudes and behaviors. Broadly defined, business ethics includes ethical conduct, legal compliance and, in some cases, corporate social responsibility. Ethics-related outcomes can be seen in nearly every aspect of a company, from employee perceptions of fairness, to employee engagement and retention, and ultimately, as U.S. and global executives note, to reputation and sustainability (see SHRM's 2008 Executive Roundtable Symposium on Sustainability and Human Resource Management).[2]

The establishment of business ethics as policy is not new. A number of business codes were established and in use in the 1920s. In fact, the retailer J. C. Penny Company introduced a company code of conduct in 1913.[3] The focus on business ethics, particularly ethics policies and programs, rapidly grew in the United States in the 1980s and 1990s in response to government and legal pressures. The Defense Industry Initiative (DII), created in the 1980s in response to government regulations, was developed for defense contractors to comply with a high standard of conduct. DII was the first organized attempt at creating standard ethics and compliance programs. In 1999, a survey of a sample of *Fortune* 1000 companies by researchers Weaver, Treviño and Cochran found that only 20% had adopted ethics polices prior to 1976

and 60% since the mid-1980s.[4] A series of high-visibility corporate scandals (such as Enron, Arthur Anderson, WorldCom) resulted in the Sarbanes-Oxley Act (SOX) of 2002, the goal of which is to foster truthful communication between company officers and shareholders in publicly traded companies.

In today's global marketplace, HR, ethics and compliance officers, and

organizational leadership must also be cognizant of cultural differences that influence business ethics. In different countries, there are cultural variations around business ethics, such as cultural norms, legislation, communication styles, etc. In Europe, for example, there is a history of socially mandated employee involvement in businesses, where the U.S. style of codes of conduct may not be applicable. Other cultural differences, such as indirect communication styles and the need to save face, require sensitivity for ethics-related communications. U.S. corporate ethics programs tend to reflect American cultural norms, such as individualism. In contrast, collectivist societies use different communication styles to address interpersonal and ethical problems. Whether in domestic or global companies, ultimately, the commitment to business ethics and the foundation is built through organizational culture, with ethical values reflected in the workplace.

Leadership and Organizational Culture

Corporate integrity is reflected in leadership. "Because sound ethical behavior continues to erode within society, it is vital that an organization's leaders model the ethical behavior they require from staff members," notes Norman Howard, Director of Human Resources, W. K. Kellogg Foundation. "Thus, the culture of an organization plays a critical and essential role in defining the importance of ethics both in how it respects employees and how it conducts business."

An ethical culture is developed through communication, rules, leadership, rewards, rituals and stories. The realm of business ethics and organizational culture includes the views of employees and management, individual and organizational values, and constant compliance and principle-driven ethics. Attitudes and behaviors are reinforced over time through codes of conduct, behavioral modeling by senior staff, ethical decision processes and ethics training. Three key questions to ask within an organization are: 1) how does the company culture portray organizational values; 2) do company policies reflect corporate values that form the platform for ethical leadership and corporate governance; and 3) are employees treated fairly and consistently?[5] Leadership determines how effectively this is accomplished. As pointed out in an article titled "The

Ethical Commitment: Building Value-Based Cultures," employees want to trust management and know that their needs and well-being are considered. Managers demonstrate trustworthiness when they listen to employees, account for their actions and explain reasons for decisions.[6] Data from the 2009 National Business Ethics Survey, conducted by the Ethics Resource Center, reveal employees' views about whether leadership sets a good example of ethical behavior, with 80% approval for top management and 86% for direct supervisors.[7]

Finally, regular assessments of company ethics by HR and senior management are critical (see Figure 1). This may include policies and programs, the code of conduct, ethics communications, ethics training and employees opinion surveys. Key questions to consider are: 1) is the company sending the message that it promotes ethical behavior; 2) is it concerned with the welfare of employees or is the goal to protect the company; and 3) is the formal ethics program outsourced for cost savings (on the Internet), thoughtfully focused on the nuances of the organizational culture, and to what degree is senior management involved?[8]

Organizational Ethics Standards and Practices

In some organizations, HR may be responsible for ethics in terms of programs, discipline and communication. In a company without a formal ethics and compliance function, the chief HR professional often serves as the ethics officer, and the HR department promotes ethical conduct and training. The SHRM/ Ethics Resource Center 2008 survey report *The Ethics Landscape in American Business: Sustaining a*

Strong Ethical Work Environment documents that the majority (83%) of HR professionals believe that the HR department is a primary resource for ethics-related issues. Many feel that they are not part of the ethics infrastructure, yet are often requested to assist or remedy situations caused by ethical violations. However, the key findings show that HR professionals, in general, are in agreement that nonmanagement employees, supervisors and top management: 1) support them in following their organization's ethics standards; 2) talk about the importance of workplace ethics and doing the right thing in their work; 3) set a good example of ethical behavior; and 4) are held accountable if they are found to be in violation of the organization's ethics standards.[9]

The platform for an ethical workplace is the code of conduct. It describes a value system and ethical principles and outlines specific ethical rules embodied by the organization. Written standards of ethical conduct cover a number of areas, such as compliance and laws, confidential or proprietary information, conflicts of interest, use of company assets, and acceptance of or providing gifts, gratuities and entertainment. The purpose of a code of conduct is to raise ethical expectations; focus on dialogue about ethical issues; encourage ethical decision-making; and prevent misconduct and establish a platform for enforcement.[10] Through the code of conduct, with clear language and specific illustrations of how ethical principles apply to the workplace setting, organizations put employees—including management—on notice that there are consequences of not complying and expectations for certain behavior.[11]

Two broad incentive categories encourage ethical behavior: reward and recognition systems, and performance evaluation systems. Companies may use public acknowledgment of individuals or teams who go "above and beyond the call of duty" as a vehicle to reinforce ethical behavior. For example, an annual ceremony to present the "President's Award for Integrity and Business Ethics" is one way to thank employees for their exemplary work and set examples for others. Performance reviews may include a section on corporate values, such as how the employee demonstrates respect, inspires others, engenders trust and confidence, keeps commitments, etc. Such recognition helps maintain focus on the company's philosophy about business ethics, the real impact on the workplace culture by the employees and the company's standing in the marketplace.

Ethics and Generational Differences

Understanding generational differences—and finding common ground—helps improve communication in the workplace (see Figure 2). The SHRM white paper *Ethics and Generational Differences: Interplay Between Values and Ethical Business Decisions* examined how different generations approach questions of integrity and purpose. The authors point out that "with value systems and motivation at the heart of ethics—and divergent value systems seemingly inherent within the four generational groups—the existence of varied ethical perspectives among co-workers is not a surprise."[12]

A common area of tension among generations focuses on work ethic, and conflict often stems from how it is defined. Traditionalists and Baby Boomers may criticize the two younger generations about their lack of work ethic, since older generations often equate strong work ethic to being part of the organization (and being physically present in the office) for long periods of time. Baby Boomers consider a combination of factors—collaboration, teamwork and meetings—as evidence of work ethic. Generation X and Millennials see work ethic as working hard—often autonomously—with a positive impact on the company while also living a full life outside of their job. Yet, research shows that no matter one's age, people value achievement, balance and responsibility, and want

Figure 1	Ten Questions to Assess Your Company and Its Procedures About Decision-Making
▪ Do you give your employees an opportunity to express their views before decisions are made?
▪ Are all employees treated with respect and dignity?
▪ Does the company promote consistent application of the rules across situations?
▪ Does the company discourage the influence of personal biases on decisions?
▪ Are the needs of employees considered?
▪ Are decisions made based on accurate information?
▪ Is honest feedback provided about why decisions are made?
▪ Are the rights of employees respected?
▪ Are managers consistent in their views about appropriate ethical standards?
▪ Are opportunities provided to appeal decisions that employees disagree with?

Source: Adapted from Tyler, T., Dienhard, J., & Thomas, T. (2008, Winter). The ethical commitment to compliance: Building value-based cultures. *California Management Review, 50*(1), 31-51.

credible, trustworthy leadership (see SHRM's *Research Quarterly* "The Multigenerational Workplace").[13]

The commitment of the Millennial generation (Gen Y) to volunteerism points to idealism and the confidence that one individual can positively affect society. Volunteerism is an opportunity for organizations to showcase ethical and moral behavior through community service (see *Volunteerism—Moving Up on the Strategic Agenda*).[14] A recent study from Deloitte found that nearly two-thirds of respondents aged 18 to 26 prefer to work at firms that offer opportunities to their employees to volunteer their professional skills at nonprofit organizations.[15] "It is the idealism that this generation of young employees brings to the workplace that can also portend the potential vulnerability of their moral compass," says human resource consultant Joy Gaetano, SPHR, president of Gaetano Group and a SHRM Ethics Special Expertise Panel member. "An organization that can establish clear ethical guidelines, set policy standards and provide a culture that nurtures ethical decision-making and values gains respect as an 'employer of choice' where a young employee can focus on optimizing his or her workplace talent rather than feel compromised by workplace conduct."

Ethical Decision-Making

Values drive decision-making. In the sometimes confusing maze of decisions, employees and managers may at times feel conflicted by their personal values and the corporate message. In today's busy workplace, managers have to make decisions quickly, are influenced by short-term pressures and therefore may fail to adequately focus on social norms and ethical principles. When confronted with ethical decisions, guidelines about ethical-decision making are valuable tools and can be presented in a corporate ethics program, during a staff meeting or as part of an employee-manager mentorship. These guidelines provide a framework for learning (e.g., where do workers learn what is acceptable in the workplace) as well as opportunities to reinforce corporate values. Such discussions are important in management training—for new managers, managers new to the company and longer-term managers alike—to highlight how value-based decision-making fits within the organization's mission and vision (see Figure 3).

The concept of moral motivation—*why should I do the right thing?*—is the focus of a recent article in the *Journal of Business Ethics.* The authors explored moral motivation through the lens of applicability to corporate ethics programs. The value of this study lies in offering a basis for discussion of how and why decisions are made (i.e., what is the ethical foundation/reasoning). The ethical theories of moral philosophers (Aristotle's ethics of virtue, Kant's categorical imperative and Mill's utilitarianism/greatest happiness principle) identify key ethical leadership skills that are important for today's workplace: 1) practical wisdom—personal integrity and good character, 2) moral reasoning—compliance with corporate ethics, and 3) moral feelings—cost/benefit analysis (for all stakeholders).[16]

Mini-Case Study: John's Decision

John Hart was a division manager at Atlantic Soda, a large bottling conglomerate with more than 30 companies. He was asked to meet with Bill Goodwin (his boss) and Bob Martin (regional division manager for a competitor, Mid-Major Pop). John had joined the firm six months earlier and was known for his track record of hard work and excellent sales results. In Atlantic's culture of rewarding performance and

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Figure 2 | Key Points for Ethical Business Management of Different Generations

- Develop an internal campaign, with ethics as the #1 value for the organization and employees.
- Avoid stereotyping employees according to their generation.
- Clearly identify the priorities of the company and then link them to the priorities and values of employees to support business decisions.
- When possible, learn the values and motivation of employees and then connect them to individual and organizational goals.
- Focus on business results, not on methodology (as long as it is ethical). All groups want to contribute and achieve but may do so differently.
- To make ethical guidelines relevant to everyone, establish ongoing training and support sessions.
- Look for commonality among employees of different generations.
- Embrace diversity of opinion and methodology.
- Err on the side of more communication, such as using different types of media: face-to-face meetings, e-mail blasts, etc.
- Remember to respect the dimensions of differing generations (age, technological savvy, alternative work experiences, innovation, etc.)

Adapted from: Guss, E., & Miller, M. C. (2008 October). *Ethics and generational differences: Interplay between values and ethical business decisions* [white paper]. Retrieved from www.shrm.org.

talent, John had already been promoted twice. At the meeting, Goodwin discussed the intense price competition between Atlantic Soda and Major Pop. He suggested that they establish a mutual set of prices. The two principals agreed. However, John would have the responsibility to implement this arrangement in his region.

This true story illustrates an opportunity for an ethical decision. Pressures were exerted by John's manager to sway the decision. John had options to consider: personal/company achievement or his personal and the company's integrity. He made the wrong choice and went to jail for his part in the price fixing, a violation of the Sherman Antitrust Act.[17]

Corporate Ethics Programs

Ethics training is a key part of business ethics. It assists employees and management in clarifying their own ethical paradigms and doing the right thing when confronted with ethical dilemmas. In conjunction with a code of ethics, ethics training serves as an organization's guiding framework. Training can be delivered in many ways, such as web-based training, webcasts and in-person training programs, thus accommodating schedules and different learning preferences and taking advantage of cost-savings opportunities. Legislation makes compliance critical (see *U.S. Sentencing Guidelines for Organizations*, adopted in 1991 and updated in 2004, www.ussc.gov/orgguide. htm). Publicly traded companies subject to the Sarbanes-Oxley Act of 2002 (SOX) must have a code of ethics designed to deter wrongdoing, including a statement promoting financial integrity that

clearly applies to senior financial officers (see SHRM article about the Sarbanes-Oxley Act). Additional U.S. federal laws that cover unethical business practices include the Foreign Corrupt Practices Act of 1977 (FCPA), which prohibits corrupt payments to foreign officials for the purpose of obtaining or keeping business; mail and wire fraud statutes, 18 U.S.C. § 1341, 1343; The Travel Act, 18 U.S.C. § 1952, which provides for federal prosecution of violations of state commercial bribery statutes; and Federal Sentencing Guidelines, particularly §8.B2.1, regarding the components of an effective compliance and ethics program.

Based on the Federal Sentencing Guidelines, the Ethics Resource Center (ERC) outlines six elements necessary for a comprehensive ethics and compliance program: 1) written standards for ethical conduct; 2) training on ethics; 3) a mechanism to seek ethics-related advice or information; 4) a process to report misconduct anonymously; 5) disciplinary action of employees who violate the organization's ethics standards or the law; and 6) inclusion of ethical behavior within each employee's regular performance appraisal. The SHRM/ERC 2008 survey report on ethics found that most organizations do not have a comprehensive ethics and compliance program. Only

23% of HR professionals reported that their companies had all six elements, yet other factors were in place: 88% of HR professionals said that their organizations disciplined employees who violated the company standards, 75% had written standards for ethical conduct, 74% had a mechanism to report violations confidentially or anonymously, and 66% had orientation or training on ethics. In contrast, more than 50% of organizations did not have a specific mechanism for employees to seek advice on ethics-related matters, and 57% did not evaluate employees on ethical conduct in their performance reviews. The most common types of misconduct seen by HR professionals were abusive or intimidating behavior toward employees (excluding sexual harassment); e-mail and/or Internet abuse; inaccurate reporting of actual hours worked; employee behavior putting the employee's interests above those of the organization's; and employees taking sick days when they are not sick.[18]

The *2009 National Business Ethics Survey* from ERC found that during the recession, 81% of employees have confidence in their company's executives, only 23% believe that the recession has negatively affected the ethical culture within the company, and 10% believe that in order to stay in business during the recession, their company has lowered

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Figure 3 | Questions and Lessons for Ethical Decision-Making

- What is the biggest ethical dilemma you have experienced in your career?
- How did you respond?
- What was the outcome?
- What did you learn?
- How did you transfer this learning or experience into teachable moments for others?

Source: Tichy, N. M. (2003). Students meet ethical dilemma in their workplace challenges. In N. M. Tichey & A. R. McGill (Eds.), *The ethical challenge: How to lead with unyielding integrity* (pp. 211–230). San Francisco: Jossey-Bass.

its ethical standards. Employees see their leadership—even during these difficult economic times—as trustworthy, with 81% of respondents trusting that company executives are telling the truth about the well-being of the organization. The study also found that with more focus on business ethics, misconduct decreases: specifically, misconduct declined after 2002, when SOX was passed, then increased over the next four years, and then declined again during the recession (see Figure 4).[19]

Ethics and Perceptions of Fairness

Perceptions of fairness are closely tied to business ethics, at the root of which are questions of justice. Also known as "organizational justice," it encompasses fairness of outcomes and allocation of resources, fairness of decision-making processes and fairness of interpersonal treatment from the supervisor. In today's litigious environment, organizations must be transparent, equitable, consistent and fair in their policy development and administration. The following example illustrates how policy applied inconsistently can negatively affect employee morale. Individual

values and moral positions of an employee may end up in juxtaposition with the policies and behavior of the employer, through confusion, inconsistency, and poor management communication and practices, bringing forth questions of fairness.
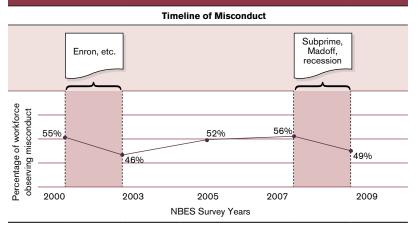
Mini-Case Study: A Lack of Transparency

An employee had worked for nearly 30 years at a well-established, fiscally sound bank in the commercial market. Unexpectedly, she found herself needing to take time off for the care of her sick husband. Saturday morning, her husband was rushed to the hospital to undergo emergency surgery, and on Monday he was placed in intensive care. On that Monday, the employee made a request to her manager to use some of her 10 months of accrued sick leave to care for her husband. FMLA was approved, but she was told that according to the HR department, she must use vacation time rather than sick leave.

After being out for a couple weeks, with more than two-thirds of her FMLA entitlement re-

maining, the employee returned to work. Her manager and a senior HR officer ushered her into a meeting to discuss the terms of her return to work. "We're concerned about your ability to come back. We can't have you taking long lunches or leaving early to visit your husband." The employee assured them that this had not been her plan but asked why it would be a problem if an occasional need were to arise. "If we let you do it, we'd have to let everyone do it." Although she had planned to retire in less than six months, at this point, the employee was very upset and her view of the company was negatively affected by this exchange and lack of support. She later learned that sick leave use for family members was discretionary at the determination of the manager. An HR officer also informally counseled her, saying "if your own doctor were to say you are too stressed to work, your sick hours would more than carry you through your planned retirement date, plus you'll get another annual profit-sharing check." This sentiment was echoed to her by several other bank officers.

The poorly communicated and inappropriately administered policies—such as the FMLA leave—coupled with lack of sensitivity by management and subsequently perceived unfairness—largely contributed to the distress of the employee. This example illustrates how lack of transparency of company policies can create confusion and lead to an unethical subculture. In this case, vague policies allowed line and human resource managers to permit or deny leave on a case-by-case basis. While denying sick leave may save

Figure 4 | The Increase and Decrease of Misconduct Over Time

Timeline of Misconduct

Percentage of workforce observing misconduct

Enron, etc.

Subprime, Madoff, recession

55% 46% 52% 56% 49%

2000   2003   2005   2007   2009

NBES Survey Years

Source: Ethics Resource Center. (2009, October). 2009 *National Business Ethics Survey,* www.ethics.org

the company money in the short term, the cost is also reflected in decreased employee morale, with the likely loss of valuable human capital.

Transparent procedures are important. They allow managers to emphasize the importance of decision-making for all employees to minimize the belief that some receive favorable treatment or differences based on other biases. When focus is placed on respecting employees and their rights, the quality of interpersonal relationships in the workplace improves. When people are treated with dignity and courtesy, commitment to the organization increases along with productivity.[20] Ultimately, the question that HR and organizational leaders should ask is, are our own policies inadvertently shaping our corporate cultures in ways that will undermine the reputation of the company and ultimately cost the company the loss of talent, production, customer service and profits?

Global Perspective

One popular topic for HR professionals in the last few years has been the need to develop a global mindset, but this need has been viewed mostly through the context of individual development. SHRM interviewed Lorelei Carobolante, SCRP, GMS, GPHR, SHRM Global Special Expertise Panel member and CEO/president of G2nd Systems, who has extensive expertise in the area of intercultural communications.

"We often fail to recognize that the establishment of such cultural norms within an organization has many more business ramifications than the often-cited cases of employees assigned to foreign locations and their struggle to become effective

contributors," says Carobolante. "As our workforce, anywhere in the world, is becoming more culturally diverse, developing a global mindset is just as important at the local level as it is globally. It applies as equally to a manager in Singapore as to a

manager in Toledo, Ohio. For example, we often associate *communication style* with culturally different norms and therefore typically consider it merely an issue of 'etiquette.' Sometimes, we also appreciate its effect on productivity, but we rarely recognize its ethical implications."

"When a manager provides employees with the same desk, the same computer, the same tools, but fails to provide instructions that are equally understood and interpreted by native and non-native English-speaking employees, not only does the manager foster a lack of productivity from employees who cannot understand the subtle implications derived from culturally based expressions, but the manager then does not actively support (and can potentially damage) an employee's ability to excel, be successful and develop his or her professional career," Carobolante continues.

"When a manager is able to communicate in a culturally neutral fashion, employees are not put at a disadvantage in their ability to succeed as a result of poor communication skills by the manager. Even if an employee is uncertain about

The need for global organizations to **work virtually** across functions and geographies increases and intensifies, with implications for **intercultural communication**, **business ethics** and **organizational effectiveness**. A new approach is needed to develop **global workforce cultures**, with better understanding of **transnational teams**, **online collaboration**, **globalization** and **business process transformation**.

Source: *Future Insights (SHRM, 2009)*

the meaning of what he or she is told, the employee most likely will not ask for clarification—for fear of been perceived as less intelligent [or having an English proficiency or cultural-difference problem]."

This example clearly illustrates the relationship between business ethics and productivity, and the ethical responsibility for clear communication on the part of the manager, as Carobolante explains. A lack of understanding of these dynamics often leads to:

1) Poor team performance, as some employees can establish relationships, while others find it difficult.

2) Inconsistent productivity across the organization, as some employees are well attuned with the goals, while others, though equally talented, tend to isolate themselves.

3) Employee dissatisfaction, as isolation tends to facilitate a sense of inequality and unfair treatment and leads to decline in employee engagement—a direct connection to productivity.

4) Ultimately, employee retention problems, as talented individuals who do not feel appreciated and lose faith in their ability to grow within the organization will leave the company.

As Carobolante concludes, "What is most difficult to recognize is the ethical responsibility associated with today's new globally diverse workplace, which requires managers to communicate effectively across multiple cultures at the same time so that *all* employees will have equal levels of participation, thus being able to contribute their expertise, creativity and commitment to reach the organization's goals."

In Closing

The message sent by leadership through organization culture determines the tone of business ethics in the workplace—how it is defined, perceived, promoted, demonstrated and "lived." Based on a foundation of solid and clear corporate values for ethical behavior, the right decisions can be made, thus fostering trust, fairness, transparency and compliance. With organizations becoming more global and more virtual, leaders must understand people of different backgrounds, cultures, values and perspectives. Ultimately, the ethical workplace is the common link between culture, values and leadership and productivity, organizational reputation and sustainability.

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