

Institutionalising Ethical Cultures: An Investigation of Formal Organisational Approaches

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Ethics, morality, business ethics, codes of ethics, codes of conduct, organisational ethics, integrity, compliance, aspirational, corporate responsibility, organisation, organisational structure and design, formalisation, centralisation, complexity, hierarchy, bureaucracy, machine organisation, professional organisation, diversified organisation.

Abstract

This thesis examined the institutionalisation of ethics within Australian organisations. A particular focus is the role of the strategic apex, or executive level of the organisation, in establishing the environment in which an ethical culture can develop.

The literature review examined both organisational theory and existing approaches to developing organisational ethical culture using formal mechanisms such as written policies, procedures, training and development and reinforcement strategies. This revealed the polarisation of ethics literature between compliance and integrity based approaches. This is seen to be consistent with only two forms of organizations, the mechanistic and organic structures. This was identified as a major flaw in ethics literature as it does not inform organisations about appropriate ethical design for organisations that fall in between this continuum. The review of organisational theory concluded that components of organisational structure are used to discuss organisational moral responsibility and are also the components of the compliance and integrity approaches to organisational ethics. A tentative hypothesis was established that organisational ethics systems would be more effective if they are in fit with an organisation's structure. Literature

The study utilised a qualitative case based research method, argued as appropriate given the focus being strategic alignment of organisational structure and ethics frameworks. Thus was also recognised as having limitations, specifically not addressing the behavioural impact of such strategies in a significant way. The study examined the ethical frameworks of three large organisations. This included: an analysis of background to the ethics strategy, the design process, who was given responsibility for design and implementation of the framework. The major characteristics of the program was considered, how it was encultured throughout the organisation and consideration of any evaluation mechanism. This was contrasted against the organization's structural characteristics to establish whether the ethical framework was in fit with the structure of the organization.

The analysis and discussion identified that senior management support was evident in all three case studies and crucial to the development of an ethical culture. Extensive written policies (codes of ethics and conduct) were identified in all three cases; however, the extent of appropriate support systems determined the degree to which

these policies were effective. There was a general lack of understanding of ethical systems within the organisation with little expertise evident by those responsible for the programs in terms of appropriate strategies for enculturation. Ineffective strategies were mainly due to lack of appropriate support mechanisms (communication, training, reinforcement and reward and review) or inconsistency between support mechanisms and other organisational policies

A major conclusion of the thesis is that the strategies used for enculturation of ethics, are basic organisational design variables. As such ethical frameworks need to be informed by organisational theory so as to design systems that achieve fit which leads to greater effectiveness.

Table of Contents

Chapter 1	Introduction and Research Methodology	1
1.0	Chapter Introduction	2
1.1	Codes of Ethics and Organisations	2
1.2	Organisations and the Moral Dimension	4
1.3	Why is it necessary to influence decision making	6
1.4	The importance of ethical culture	9
1.5	Classifying Organisational Ethics Frameworks	12
1.6	Research Methodology	16
1.7	Criteria for Judging Quality of the Research Design	25
1.8	Analysing Case Study Evidence	27
1.9	Outline of Thesis	28
Chapter 2	Strategies for Developing Ethical Organisation	30
2.0	Chapter Introduction	31
2.1	The Dual Typology of Organisational Ethics	33
2.2	Developing Ethics	38
2.3	Key Features in Development of Ethical Cultures	42
2.4	An Ethical Policy	54
2.5	Examination and Review: The Ethics or Social Audit	75
2.6	Empirical Evidence in support of ethical systems	87
2.7	Chapter Conclusion	100
Chapter 3	Organisation Structure Considerations	103
3.0	Chapter Introduction	104
3.1	The Basic Components of Structure	106
3.2	Organisational Moral Responsibility	109
3.3	Organisations as Machines	113
3.4	Internal Decision Making Structure and Morality	118
3.5	Structural Changes and Moral Consciousness	121
3.6	Dimensions of Organisation Design	123

3.7	Types of Ethical Culture	129
3.8	Grouping Strategy	133
3.9	Organisational Form: The Bureaucracy	139
3.10	The Three Large Structural Forms	147
3.11	Chapter Conclusion	158
Chapter 4	The Body Shop Australia	160
4.0	Chapter Introduction	161
4.1	The Body Shop International's Ethical Framework	162
4.2	The Body Shop Australia	163
4.3	Structural Characteristics	163
4.4	Culture and Ideology	169
4.5	Training and Indoctrination	170
4.6	Structural Configuration Conclusion and Ethical System Implications	172
4.7	The Body Shop's Ethical Process	173
4.8	Analysis of the Body Shop's Ethical Framework	183
4.9	Structural Analysis	189
4.10	Conclusions of the Body Shop Case	197
Chapter 5	The RMIT Case	202
5.0	Chapter Introduction	203
5.1	Structural Characteristics of the RMIT University	203
5.2	Structural Configuration Conclusion and Ethical System Implications	209
5.3	The RMIT Ethics Process	210
5.4	Analysis of the RMIT Ethics Framework	217
5.5	Effectiveness of RMIT University Ethics Strategy	229
5.6	Conclusions of the RMIT Case	231
Chapter 6	The BHP Case	237
6.0	Chapter Introduction	238

6.1	Structural Characteristics of BHP	239
6.2	Structural Configuration Conclusion and Ethical System Implications	248
6.3	The BHP Ethics Process	248
6.4	Analysis of the BHP Ethics Framework	256
6.5	Structural Analysis	271
6.9	Effective Leadership	270
6.8	Conclusions of BHP Global Conduct System	275
6.9	Major Weaknesses	277
6.10	Concluding Statement	278
Chapter 7	Conclusions, Cross Case Comparisons and Further Research	280
7.0	Chapter Introduction	281
7.1	Conclusions from Chapter 1	281
7.2	Conclusions from the Literature Review	283
7.3	Case Study Conclusions	284
7.4	Cross Case Conclusions	286
7.5	Guidelines for Developing Integrity Systems	291
7.6	Further Research Questions	299
7.6	Thesis Conclusion	300
	Appendices	303
	Bibliography	340

Statement of Original Authorship

“The work contained in this thesis has not been previously submitted for a degree or diploma at any other higher education institution. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made.”

Signature:

Date:

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Chapter 1

Introduction and Research Methodology

1.0 Introduction

Whether an organisation can have a corporate conscience, and thus be concerned with the implementation of policies and procedures that develop and reinforce an ethical culture, has been a source of debate for many years. This thesis will examine the formal ways in which large organisations with different types of bureaucratic structures aim to achieve ethical behaviour. Organisations use a variety of methods to ensure employees act in a manner that facilitates the attainment of organisational goals. As identified by many authors (Child 1986; Daft 2001; Hatch, 1997; Mintzberg 1981, 1985, 1990, 1998; Robbins 1990; Robbins & Barnwell 2002) when organisations grow in size, they become more complex by establishing more hierarchical levels and greater horizontal differentiation, through the creation of sections and departments. As complexity increases so too does the difficulty of coordinating these different organisational parts and controlling the behaviour of employees within them.

Organisations tend to rely on formal rules and regulations that standardise the behaviour or the work of employees. The increasing degree of complexity that results with increased formalisation will inevitably impact on the way ethical issues are handled within the organisation. A growing organisation tends to use rules and regulations to identify the standards of ethical behaviour required of its members in the same way it prescribes other types of behaviour related to job performance.

1.1 Codes of Ethics and Organisations

This thesis will show that central to the development of an ethical culture is the existence of a document that articulates the organisation's ethical standards. Robbins (1990) stated that codes of ethics or codes of conduct were a type of formalisation, thus establishing codes as an example of organisational structure. Shaw and Barry (1995) identified the purpose of codes of ethics and/or conduct as being to improve the organisational climate so that employees can behave ethically. Adams and Tashchian (2001) cited both Arrow (1974) and Stone (1975) who suggested that ethical controls, such as codes, are necessary in organisations because legal systems and market conditions do not necessarily lead to behaviour and decisions in organisations which take into account the moral impacts of business action. According to Robbins (1998),

codes of ethics are formal organisational documents that are designed to regulate the behaviour of employees. It is a central tenet of this thesis that such codes are examples of rules, policies and procedures, or organisational formalisation as defined by Child (1986); Daft (2001); Hatch (1996) and Robbins (1990), and therefore should be examined in the context of the level of overall formalisation in an organisation. As will be demonstrated in Chapter 3 of this thesis, formalisation is one of three measures or descriptors of organisational structure, the other two being centralisation and complexity. The extent and locus of decision-making power are an example of centralisation while hierarchical levels are an example of complexity. One of the major developments in organisational studies of the late 1980s and the 1990s has been the attention afforded to organisational codes of ethics and codes of conduct, both in Australia and overseas (Adams & Tashchian 2001; James 2000; McDonald 1999).

However, a major debate exists, as discussed in Chapter 3, as to whether organisations should consider, or are able to consider the moral implications of their decisions. Farrell, Fraedrich and Farrell (2002) identify that individuals may engage in unethical behaviour, believing they are advancing the interests of the organisation. Adams and Tashchian (2001) suggest that codes could also be seen as an attempt to introduce professional standards to an organisation similar to those that apply to professions such as medicine and law. Harrison (2001) suggested that in a modern firm business activities are invariably established and controlled through a company structure, rather than by individuals. The rules that regulate the actions of companies, as overseen by the managers and advisors, who are committed to such standards of conduct and action, restrict activities.

According to Weiss (1994), codes can also be viewed as attempts to institutionalise the morals and values of the founders of an organisation, so that they become part of the organisational culture. In this way new employees are assisted in understanding company values and purpose. Adams and Tashchian (2001) have identified that codes are also managerial tools that can be used for change, by sending messages to employees about expectations of behaviour that go beyond that required by law. In this way codes may be seen as attempts to articulate the moral climate of an organisation. An analysis by Ford and Richardson (1994) specifically examined strategies of enculturating ethics within an organisation by linking codes to rewards and sanctions, size and industry type. They concluded that the existence of a code of ethics,

combined with sanctions designed to reinforce that code, tend to influence an individual's ethical decision-making. As can be seen by this short description, there is a direct relationship between codes of ethics as a statement of ethical standards and procedures that fall into the category of formalisation, a key descriptor of structure.

1.2 Organisations and the Moral Dimension

Should organisations be concerned with the development of codes of ethics, codes of conduct, or more substantive ethical systems? Can they have a corporate conscience and thus be concerned with the development of policies and procedures that reinforce their will? It has been suggested that people should be considered as rational entities that can be held responsible and accountable for their actions. Actions committed knowingly and freely are considered moral in nature and can therefore attract either praise or blame. We can accept that where a person has moral responsibility there might, at times, be mitigating factors that can affect the extent of that responsibility and accountability, and these are important to the discussion regarding individual morality. However, when people engage in joint activity under the banner of an organisation, the extent of the moral responsibility becomes debatable (French 1993). As will be shown in Chapter 3, most of the discussion concerning the extent of moral responsibility of organisations focuses on the organisation as a rational but limited entity. Essentially, because a corporation is primarily established to achieve limited objectives, such as to produce certain products or services, it cannot be said to be a true person engaging in diverse behaviours in different contexts and capable of intent, so its moral responsibilities are also limited. This concept is often referred to as social obligation, described by Robbins (1990), as the responsibility of an organisation to achieve its objective solely within legal limits. This is similar to Friedman (1970) argument that organisations are, in fact, limited entities and therefore should not be expected to act in the same way as a moral person. Moreover, he argued that the agents of the organisation, specifically managers who held the responsibility for decision-making within the organisation, were bound to make decisions only with respect to the objectives of the firm. Their only duty was to maximise profits for the shareholders of the organisation. Donaldson (1989) describes another perspective, where the organisation, whilst a legal entity, is not a corporeal one and thus not capable of intent. If only corporeal rational entities are capable of intent, this would suggest that an organisation, as a legal entity, could not be held morally accountable

for its actions. If this were true, the development of any code of ethics would be irrelevant for organisational purpose.

However, Allison (1998) has argued that ethics is fundamental to business conduct. He contends that a moral relationship lies at the basis of agreements and contracts between two people or two organisations, and that unless there is a basis of trust, business cannot proceed. This view suggests that the organisation is a moral player in society with duties and responsibilities, and in order to advance its interests it must engage in behaviour that is acknowledged to be at least the minimum moral standard. Similarly, Drucker (1982) has argued that relying on the market mechanism to ensure appropriate organisation behaviour is not insufficient. He suggested an important question for debate was the need for corporate ethics to extend beyond the boundaries of philosophy and include broader issues in society. These views have been referred to as the socio-economic perspective, which challenges the conditions of the pure market, suggesting that, due to imperfections, no market can be considered perfect. Rather than let imperfections arise, resulting in poor use of resources, or hazards including issues of safety, managers must make conscious decisions in the interests of society. In effect they should act in the interests of the common good, not just the interests of the shareholders (Collins & McLaughlin 1997).

Allison (1998) suggested that ethics cannot be considered separately from the management of organisations, and that there are two fundamental ways in which ethics is involved in defining business activity: firstly, through the setting of the goals or the purpose of an organisation and, secondly, through the establishment and maintenance of a communication infrastructure. This establishes a fundamental relationship between organisational purpose and the structures that are developed to achieve that purpose. Drucker has identified that organisations have moral impact on society and Allison has identified that the structures and mechanisms organisations use to achieve their goals also have ethical dimension. It is the central tenet of this thesis that the dimensions of organisational structure - formalisation, centralisation and complexity - have direct impact on the ethical climate of an organisation.

More recently, business ethics literature has focused on the business case for organisations developing ethical cultures. Related to the issue of trust between businesses and stakeholders as identified by Allison (1998), the development of ethical

cultures and business practices, as evidenced by the existence of codes of ethics, integrity systems and socially responsibility strategies, strengthens the relationship between the organisation and key stakeholders such as consumers. This has been shown to reinforce demand and thus sales. Further evidence is emerging that shareholder value is also positively associated with improving ethical cultures (Bejou, Ennew and Palmer 1998; Dawes & Swailes 1999; Jensen 2004; Kent Craig 2004; Verschoor 1999). In addition, organisations are being made aware of the increasing costs associated with unethical practices. This suggests that there is a direct relationship to business profitability, as evidenced by improved sales and sustained growth or a negative relationship to costs. This can be seen as another argument in support of organisational ethical frameworks.

Allison (1998) also suggested that in defining the purpose of a business, one could not simply state a singular goal, such as to maximise returns or profit, as suggested by Friedman (1970). By definition an organisation must have other goals, including those that have social impact, so as to attain a superior goal. Allison argued that organisations need to develop a harmonious working environment, recruit suitably qualified employees and train individuals. Thus they must also have other goals that contribute to the stated purpose of the organisation and impact or influence external bodies; thus there is societal impact as well.

1.3 Why is it Necessary to Influence Decision-Making?

Organisations are not corporeal beings and as such do not make decisions; rather, it is the individuals within them who do. However, once employed by an organisation, individuals must act as organisational agents and are obliged to make decisions consistent with the goals and objectives of the organisation. An organisation cannot simply assume that employees will be able to consistently interpret and resolve ethical dilemmas that occur within the organisation. Adams and Tashchian (2001) purport that organisations need formal mechanisms to inform their agents as to required behaviour, from a legal perspective. This is to protect the organisation should one of its agents act illegally. Such mechanisms would also enable the organisation to have congruent behaviour, even when employees are replaced or new employees join the organisation. Such a concept is consistent with the purpose of formalisation, being to ensure behavioural consistency (Robbins 1990). This appears to support the need for

establishing formal systems within an organisation to encourage appropriate behaviour from its members.

According to Ferrell and Fraedrich (1997), the way in which individuals in organisations resolve ethical dilemmas arise from the following factors:

- a) the recognition of an issue as an ethical issue -- an issue that requires a decision to be made between two or more competing objectives referred as 'ethical issue intensity';
- b) the individual factors -- the ethical standards of the person who is called upon to make an ethical decision; and
- c) the corporate culture -- the influences on the mind of the individual called upon to make an ethical judgment.

The individual factors described above relate to a person's own cognitive moral development.

Kohlberg (1984) proposed that individuals arrive at differing moral judgments about the same issues because they possess differing stages of cognitive moral development. He proposed a six-stage model of cognitive moral development, with each stage representing progressively more sophisticated moral evolution. By implication, persons at higher stages of moral development tend to consider factors other than their own benefit, when identifying and resolving moral or ethical issues (French & Granose 1996). This suggests that within organisations individuals may reach different decisions concerning the same action or circumstances if not governed by specific guidelines or decision criteria. According to James (2000), managers generally seek to encourage or promote ethical conduct within organisations by focusing primarily on the individual. He suggested that companies assume that an individual's level of moral development and ethical sensitivity, derived from internal values and needs, are the primary factors that affect the ethical behaviour of their employees. Organisations need to develop policies and procedures that will harness an individual's sense of right and wrong. James (2000) suggested that it is necessary to specify and communicate ethical objectives through codes of ethics, training and other

devices so that managers promote ethical behaviour. He also suggests that an alternative approach is to emphasise organisational aspects such as rewards, punishment, corporate culture and other environmental conditions. Organisations need to consider that the individual factors described by Ferrell, Fraedrich and Ferrell (2002) are also external to the individual, occurring both within the organisation and externally. James (2000) described studies by Baucus and Near (1991), which concluded that the economic environment and larger organisational size increase the likelihood that a person might behave illegally. He also identified research on the relationship between organisational structure and ethical behaviour of workers as focusing primarily on the effects of informal structures, such as culture (Trevino & Youngblood 1990; Sims 1993; Brien 1998; Trevino et al. 1998; Victor & Cullen 1998).

Collins (1997) provides further insight into the behaviour of organisational employees and what might account for their decision making process. He suggested that there are three reasons why corporate employees choose to act unethically. Firstly, some employees believe that unethical activity is in the company's best interests and is actually expected of them. Collins (1997) termed these employees 'ethical cynics' because they did not believe managers want them to be ethical, but rather consider such directives as 'window-dressing'. Because of their loyalty to the company, they engage in unethical behaviour. In this case the organisation has been unable to clearly establish an understanding of its purpose and to exact compliance from such employees to the stated standards of behaviour. Secondly, some corporate employees act ethically because they believe such conduct is in their own self-interest. These can be termed 'ethical egoists' because their purpose is to advance self-interest (Collins 1997). Thirdly, employees may not be aware that what they are doing is unethical. These people are unable to distinguish between ethical and unethical behaviour; for example, establishing the difference between appropriate accounting procedures and fraud, or the difference between clever and deceptive advertising (Collins 1997). Hence, in order to ensure consistency of behaviour, organisations cannot rely solely on the individual's ability to determine what behaviour or decision is in the organisation's interest, as opposed to what may adversely affect the organisation.

James (2000) identifies a growing awareness that the formal organisational structure of an organisation, as distinct from its informal structure, also affects the behaviour of

workers in fundamental ways. He argues that the primary way in which organisational structure could promote ethical behaviour is by ensuring that the formal aspects of structure do not undermine the ethical sensitivities and attitudes of employees. He emphasised that organisations must ensure that their structure was balanced with the prevailing organisational cultures. This is consistent with Mintzberg's concept of structural fit between all aspects of the internal organisation and the external environment in which it operates (Mintzberg 1981, 1985). However, James (2000), identifies only three aspects of formal organisation as the critical components of organisational structure; that is, the structure of reward systems, the performance evaluation and control processes used by an organisation; and the system of allocating decision making responsibilities. Whilst these are acknowledged as critical aspects of structure they are by no means the only ones. Authors such as Byrt (1973) Child (1986); Daft (2001); Hatch (1997); Mintzberg (1985); Robbins (1990); Robey and Sales (1994) have also identified concepts such as hierarchy, spans of control, grouping strategies and integration mechanisms as being fundamental to organisational design.

1.4 The Importance of Ethical Culture

As identified by Adams & Tashchian (2001); Arrow (1974); Ford & Richardson (1994); Vidaver-Cohen (1999); Weiss (1994) and White & Lam (2000) an organisation can enhance the ethical behaviour of its workforce by improving corporate culture; that is, recognising the influence of 'significant others' and the context in which decisions are made, may provide an opportunity for employees to engage in unethical behaviour. Ferrell, Fraedrich and Ferrell (2002) describe 'significant others' as colleagues, workmates and immediate supervisors who have a direct relationship with the employee. They considered the influence of significant others as the single most important factor in determining how an individual responds to ethical issues, because it is these people an individual tends to look to for guidance and approval of appropriate behaviour. Hall (1986) suggests that such influence would be greater for new members of an organisation who are less aware of organisational rules and norms.

The second element of the corporate culture proposed by Ferrell, Fraedrich and Ferrell (2002) is the absence of a mechanism for deterring unethical behaviour and rewarding

ethical behaviour. An employee who behaves unethically, but is not brought to account for such behaviour, will learn that behaviour of this type is acceptable to the organisation and so will his or her co-workers (even if the organisation's stated ethical policies prohibit such conduct). The argument suggests that codes, in themselves, are not particularly effective in regulating employee conduct. Schlegelmilch and Houston (1990) cite Krolick (1983), who stated that many organisations and individuals mistakenly believe that supporting codes through reward and punishment systems alone will resolve the major moral dilemmas confronted by individuals within organisations. They proposed that codes of ethics, as a singular policy, would have limited value unless there were also policies that focus on education, voluntary reporting systems and other processes designed to support enforcement. Dean (1992) observed that whilst the use of sanctions in the support of corporate codes are an important part in establishing appropriate behaviour, they are not enough to ensure ethical decisions. He recommends the establishment of participative committees within organisations to investigate the types of ethical dilemmas typically experienced and to develop appropriate codes of behaviour. White and Lam (2000) cite Bohren (1992) and Hyman, Skipper and Tansey (1990) as among those who have supported the need for an ethics code as a component of an ethical culture within an organisation.

As identified in Chapter 2, the concept of organisational ethics as an organisational strategy, or system, encompasses much more than the development of a written policy on ethical standards. It must also include: the manner in which the code is developed, the communication strategies which inform employees of the standards, the training of the employees in the use of the code as a decision making tool and the review and evaluation strategies designed to assess effectiveness of the system. In addition, as Hoffman (1995) point out, a major reason for the outbreak of corporate wrongdoing is business giving insufficient thought to development of a moral corporate culture. Unethical actions and decisions are often attributed to the individual, but Hoffman (cited in Drummond & Bain 1994) made the point that the failure of the corporate systems often provides an opportunity for unethical and immoral actions by employees.

Numerous authors (Longstaff 1996; Trevino & Nelson 1995; Petrick & Quinn 1997; Preston 1996; Ritchie 1996 and Weiss 1994) support this view. Solomon (1996) in goes further identifying corporate culture as a primary determinant of ethical or

unethical behaviour. Based on Solomon's view, it appears that not only does behaviour need to be altered, but also the culture of the organisation, so as to encourage staff action to be ethical at all times. Ethical behaviour needs to be developed into an organisational norm or standard. White and Lam (2000) identified that institutionalisation of ethics within an organisation needs to be built around a proactive strategy that includes formulation of policy to clarify what is acceptable behaviour. They emphasised that management must provide leadership and support for the ethical system, including public statements that ethical behaviour is a top priority. In order for this to occur all job classifications and all levels within the organisational hierarchy should be part of the policy formulation on ethical behaviour. They suggested that this inclusive process would strengthen the likelihood of effective institutionalisation of the ethical process. Farrell, Cobbin and Farrell (1998) identified that a participative approach would be consistent with the strategies advocated by behaviour change experts, in that individuals more readily accept decisions in which they have been involved. Francis (2000) argued that organisational approaches to ethics should actively lead, inform and persuade rather than passively follow the trend of others. The institutionalisation of ethics requires a multi-faceted process: concerns about ethical issues are allowed to be raised inherently, monitoring mechanisms are developed, and discourse about ethical concerns is encouraged. This process needs to be integrated into management and the wider organisation, then be accepted by other stakeholders to such an extent that it has a continuing impact on the practices and policies of the organisation.

According to Hoffman (1995), many organisations in the United States during the 1980s and 1990s undertook significant ethical developments, through the establishment of written codes of ethics and codes of conduct. However, they have also identified that most of these organisations have yet to address the implementation of these ethical policies in meaningful ways. Only a relatively small number have implemented any formal methods of communicating, overseeing and enforcing these codes, or structurally aligned the organisation to deal with alleged violations of the codes, through the development of reporting lines which link such standards to employee performance management systems (Hoffman & Moore 1990; Hoffman 1995; McDonald 1999).

1.5 Classifying Organisational Ethics Frameworks

Much of the business ethics literature acknowledges that developing an ethical system requires more than simply writing a code of ethics, and that the issues identified above also need be part of the planning process (Ferrell, Fraedrich & Ferrell 2002; Trevino & Nelson 1999). A summary of the literature, and its limitations in providing guidance to organisations with diverse structures in developing appropriate ethical systems, has been presented in Chapter 2 of this thesis. In order to convey this limitation succinctly, the business ethics literature has been categorised according to the characteristics of the varying approaches in organisational ethics, so as to contrast it with the different structural forms highlighted in Chapter 3. Various authors have developed differing classifications systems. One of the most widely accepted has been proposed by Paine (1994) in her often-quoted article 'Managing with integrity'. In it she identifies two categories of ethical systems: the compliance approach, which relies on the use of rules, regulations and strategies designed to foster compliance; and the integrity approach, which uses more general guidelines and aspirational values, designed to guide decision making as the basis for better ethical outcomes in organisations. Paine's model has the advantage of describing these approaches concisely, using terminology that is consistent with that found in the literature for business ethics and management and organisational theory literature. Paine's typology can also be viewed as a continuum, with each approach occupying the extremes. Her approach provides a discursive framework consistent with the central tenet of this thesis. Moreover she identifies that, irrespective of which approach is used, it must be a holistic one which: includes the establishment of clear ethical values as part of an organisation's purpose; establishes the leaders of an organisation as critical in setting appropriate standards and modelling behaviours; insists that written policies be established, communicated and then reinforced through on-going training; and evaluation of ethical implementations.

1.5.1 Organisational Structure and Ethics

As identified in Section 1.0, an organisation's internal characteristics change with growth. Such changes are commonly described in terms of the levels of hierarchy, and strategies for grouping and integration of activities. Concepts such as these are the basis of organisational theory literature, which identifies the changes in structure with

improving organisational performance. In order to differentiate between structural forms, Burns and Stalker (1961) established taxonomy of structure that located different organisational structures along a continuum. At one end there is the mechanistic or highly bureaucratic structure, and at the other end the organic or flexible structure. According to Burns and Stalker (1961); Byrt (1973); Child (1984); Daft (2001); Hatch (1997); Robbins (1990) and Robey (1986) mechanistic organisations are characterised by large size and rigidity, with rules and regulation controlling much of the behaviour that occurs within the organisational boundaries. Ultimate decision-making is centralised with senior management, giving little discretion to others within the organisation. This type of organisation is typically referred to as a bureaucratic structure. At the other end of the continuum is found the organic structure, which tends to be smaller, more flexible and characterised by decentralised decision-making, where authority for action is devolved to the lower hierarchy. Rules and regulations tend to be replaced by guidelines, together with a reliance on informal systems in order to ensure quick responses to changes in the environment (Robey & Sales 1994).

Paine's (1994) taxonomy parallels Burns and Stalker's (1961) structural continuum. The compliance approach is consistent with the centralised, rule based mechanistic structure, whilst the aspirational approach is consistent with the flexible, decentralised organisation that expects an increased responsibility and accountability from its individual members. However, some research has suggested that, in reality, mechanistic and organic structures exist only conceptually. Actual organisations display characteristics of adapting or changing their structures according to numerous structural variables. This approach is known as contingency theory, suggesting that different organisation structures are more appropriate in different contexts. Paine's (1994) typology can be aligned only with the extreme structures on Burns and Stalker's (1961) continuum. Her approach to developing ethical cultures appears to apply to two organisational types only: the organic structure and the mechanistic structure. If this is so, then Paine's approach is clearly limited and needs to be modified to incorporate different structural forms.

As the purpose of this thesis is to examine how different organisational structures affect the creation of an ethical culture through the use of formal action, it will be necessary to adopt an approach to organisational theory that describes the

characteristics of an organisation in relation to the external environment, and also addresses the appropriateness of its internal characteristics. Mintzberg and Quinn (1998) identified that traditional approaches to organisational structure and design, such as those described above, have been influenced by contingency theory. The basic premise of contingency theory is that structure should reflect the organisation's situation: its age, size, production system, and whether its external environment has characteristics of stability or dynamism. However, Mintzberg and Quinn also argue that the contingency approach does not inform organisational design sufficiently; internal structures need to be designed with internal and external consistency. They define this as the configuration approach. The traditional variables of structure, such as spans of control, formalisation, decentralisation, planning systems and matrix structures, ought not be decided haphazardly. All elements of organisational design should logically configure into internally consistent groupings. A central proposition of this thesis is that a similar approach should also apply to the design of ethical systems. Given that the trend to incorporate ethical culture is a relatively recent phenomenon, and that the design of organisational structures is well established, it appears logical to design ethical systems that fit with the existing structures of organisations.

Mintzberg (1981, 1985) identified a number organisational structures or configurations displaying different levels of formalisation, centralisation and complexity. He identified two types of small, flexible organisation, referred to as the simple (or entrepreneurial) organisation and the adhocracy (or innovative) organisation. Both could be defined as organic according to Burns and Stalkers (1961) typology. Using Paine's approach as a guide to establishing ethical systems, then configurations would probably be recommended to use the same approach to developing and sustaining an ethical base; principally the integrity approach. However, according to Mintzberg and Quinn (1996), these two types of organisations differ markedly in many aspects of their structures, including the coordinating mechanisms used and which particular management group is the dominant decision-making part of the organisation. The innovative organisation usually has a far greater horizontal complexity, and is generally larger than the simple organisation. Mintzberg (1981, 1985) also identified three types of bureaucratic structure; the machine organisations, the professional organisations and the diversified organisation. Each shares many aspects in common, but they do differ markedly in the use of formalisation, levels of centralisation and

complexity (Mintzberg, 1981, 1985). Being classified as bureaucracies, these organisations tend to be at the mechanistic end of Burns and Stalker's structural continuum (cited in Child, 1986). Paine's approach again would advocate that all three bureaucracies use the same approach for developing and sustaining an ethical base - the compliance approach. However, Mintzberg (1985) has established significant differences between the three types of structure. He argues strongly that all organisational structures need to fit their environment and contexts by altering their structural design variables, such as formalisation, complexity, size, grouping and technology systems. Thus, using Mintzberg's approach would mean that the same ethics strategy could not fit all three bureaucratic structures. This brief example highlights a critical argument in this thesis; that the existing approaches to the creation of ethical systems, as found in current literature, will not provide the most appropriate and effective strategies for incorporation into the common range of organisational structures. As McDonald (1999) indicated, many of the theoretical frameworks for developing ethical cultures have not served the business community well in their efforts to raise ethical awareness, and to establish ethical climates in organisations. Without adequate guidance and direction it is understandable why the adoption rate of new practices for promoting ethics has been slow.

A major omission in the ethics literature, concerning appropriate strategies for creating a moral culture in organisations, is that of organisational structure and design, also referred to as organisational theory. It is a proposition of this thesis that there is a direct correlation between approaches to organisational theory and the notion of the moral responsibility of organisations. The relationship not only applies to the question of whether moral responsibility can be ascribed to organisations, but also to the way in which organisations can develop ethical cultures through a better understanding of organisational theory. Allison (1998) supported this view, arguing that there is a fundamental congruence between the principles of organisational structure and of ethics, and that ethical considerations are inherent in the basic rules of sound organisation structure. However, like McDonald, he has recognised that current business ethics literature does not deal with this issue, but primarily focuses on formalisation, through the application of business codes, as being the most common aspect of organisation design. This is discussed further in Chapters 2 and 3 of this thesis.

Mintzberg (1981, 1985) argued that organisational effectiveness would be enhanced when organisations seek to establish structures and systems that are consistent with their environment and context. He referred to this concept as the extent of ‘organisational fit’. This thesis is concerned with the examination of the degree of fit between particular organisational structures and the strategies developed in an attempt to foster ethical behaviour. Examination of organisational strategies will include the major design process: who developed the framework, how it was developed, the major characteristics of the program, how it is inculcated in the organisations and the review mechanism used to evaluate the effectiveness of the strategies.

Chapter 2 of the thesis will present a theoretical framework that reflects current literature and theory concerning characteristics of and approaches to the institutionalisation of ethics within organisations. Chapter 3 will present an examination of the moral dimensions of organisation and how the literature dealing with this topic also relates to organisational structure and design. It will be proposed that there is a clear relationship between the type of organisational structure and the manner in which ethical decisions are made, and therefore the types of strategies that should be used to foster ethical behaviour. From this research, preferred models of ethical systems for different bureaucratic structures will be proposed. Three major Australian organisations, each representing a different configuration of bureaucracy as described by Mintzberg, will be analysed separately to establish the degree of consistency between the ethical system used and the structure of the organisation. An analysis of the degree of effectiveness of the system will then be presented as individual case conclusions. A final chapter will draw case comparisons before making conclusions concerning the institutionalisation of ethics, as well as identifying further research questions.

1.6 Research Methodology

According to Anderson, Durston and Poole (1978) and Sarantakos (1998) there are basically two broad approaches to research: empirical or analytical. They state that the empirical or experimental research study is mainly conducted in ‘science-type subjects’ where quantifiable data can be obtained and tested for validity and accuracy. In such cases the problem or issue to be analysed can be restated as a specific and clear hypothesis, which can be compared with previous research. In contrast, analytical

studies, also referred to as interpretive research concern themselves with particular arguments or theses (Anderson, Durston & Poole 1978). Gay and Airasian (2003) state that the purpose of interpretive research is to provide in-depth descriptions of settings and people. They suggest that while a hypothesis is established to guide research questions it can be refined and restated as the research progresses. Both approaches address specific research questions; however, according to Gay and Airasian (2003) each method approaches a research issue differently and consists of multiple approaches and that the selection of an appropriate research method is critical. Kidder, Judd and Smith (1986) present a similar viewpoint, supporting the appropriateness of such research methodology when dealing with qualitative rather than quantitative problems.

1.6.1 Purpose of Field Research

Field research aims to explore ‘real life’ situations, including behaviour patterns and reasons behind social interaction. It investigates, for example, how people behave in natural situations where interventions have been produced various ways, and usually without direction from the researchers. In general, qualitative field researchers begin with a general notion or tentative idea and a formulated set of questions to accumulate data, which may or may not support the original notion. Once supported, the notions can be formulated into tentative hypotheses and after more in-depth research eventually lead to possible conclusions and propositions (Kassell 1994). According to the purpose they serve, field research studies can be exploratory, descriptive or descriptive hypotheses testing forms of research (Yin 1994). Consistent with the role of an initial hypothesis in interpretive research (Gay and Airasian 2003), the tentative hypothesis of this thesis is that the development of an ethical culture through the use of formal methods needs to be consistent with the internal structures of the organisation.

1.6.2 Case Study Method

Field research appears in a variety of forms, including that of case studies. Yin describes the case study approach as ‘an empirical inquiry that investigates a contemporary phenomenon in a real life context, with particular reference to situations where the boundaries between phenomenon and context are not clearly evident’ (Yin,

1994, pp. 2-3) The case study approach allows the use of systematic analysis ‘for exploring actual problems and issues, gather data from managers and workers in organisations, analyse and synthesise facts to produce information, develop feasible alternative solutions and make written or oral recommendations’ (Lethbridge, Petzall & Selvarajah, 2002, p. 4). This is consistent with Bauer and Gaskell (2000), who identify a number of reasons for utilising case study methods; such as gaining more information about the structure, processes and complexity of the research object when relevant information is not available or sufficient, and to assist with formulating hypothesis to facilitate conceptualisation.

Given the boundaries between phenomenon and contexts are difficult to distinguish, the case study method helps to cope with this situation, by recognising that there will be more variables of interest than information or data that can immediately be identified as supporting or rejecting the research objective or hypothesis. It relies on multiple sources of evidence, as a form of triangulation, with data needing to converge consistently. Easterby-Smith et al. (1991) identify triangulation as an approach that increases the validity of the research. They identify four approaches to triangulation, the most common being *methodological* which combines different research methods such as qualitative and quantitative approaches. However, they also identify that triangulation can also refer to *multiple data sources* such as primary and secondary sources, video, observation, and so on. In addition, they also suggest that triangulation can be achieved through multiple investigators which they describe as *multi-disciplinary approaches*, characterised by different people collecting data on the same situation, and a fourth category being *theoretical triangulation*, which refers to researchers borrowing concepts and models from one discipline and using them in another.

The prior development of theoretical propositions also assists in guiding data collection and analysis. In other words a case study, as a research strategy, comprises an all-encompassing method involving logical research design, which incorporates specific approaches to data collection and to data analysis research (Yin 1994). The organisational unit of interest is looked at as a totality and not in sub-sections. Bauer and Gaskell (2000) suggest that case study method tends to be a holistic approach to research. Individuals from such units are often the primary source of data information, obtained by the researchers through face-to-face interviews. The case study method

also perceives the respondent to be an expert in the organisation's interactions and not just a source of data. The aim is to study in an open and flexible manner social interaction and communication in its natural setting, as it takes place in the form of interaction or communication, and as interpreted by the respondents. The case itself is chosen to be typical, and a representative of a range of cases, and thus is seen as a holistic approach to research (Bauer & Gaskell 2000).

1.6.3 Appropriateness of Case Study Method for this Thesis

Because the relationship between the type of structure and the ethical enculturation strategies employed by an organisation is the focus of this thesis, a qualitative research study appears to be more appropriate than an empirical one relying on statistical hypothesis testing. In the case of this thesis, at least four of the six reasons for the use of case study method seem appropriate. Much of the collected primary data is not quantifiable, since it reflects the opinions and views of respondents. Thus, issues of confidence limits, questions of validity of sample sizes and the like become difficult to measure accurately. Hence the purpose of the thesis is to investigate the contemporary phenomenon of 'ethical fit' between structure and strategy within the real life context of organisations. It is thus a study with a research goal of explanation building, with prior theoretical propositions used to guide the data collection and analysis. An important outcome of this thesis will be to gain more information about the decision-making processes and to assist conceptualisation. This is consistent with the stated purposes of case studies by Bauer and Gaskell (2000), as detailed in Section 1.6.3 above.

The difficulty of distinguishing between the phenomena to be examined and the context in which they occur, requires numerous sources of data to enhance validity (Yin 1994). Thus data from a variety of sources has been collected for this thesis from each of the three organisations identified in Section 1, characterising the three bureaucratic structures identified by Mintzberg (1981, 1985), as a means of validation. These sources have included semi-structured interviews with senior managers, semi-structured interviews with focus groups made up of employees for each case (refer to appendix 1 for an outline of questions) and representatives of stakeholder groups. Secondary sources for each organisation were also collected and analysed. These included draft and published codes of conduct/ethics, reports of committees

responsible for the design and implementation of ethical systems, examination of strategic plans and published reports, related policies and procedures and organisational web sites. This approach is consistent with the characteristics of the case study method and is discussed in greater detail in the following sections.

1.6.4 Multiple Case Approaches

A case study may contain more than one single case. Multiple cases have both advantages and disadvantages when compared with single case. The evidence from multiple case studies is often considered more compelling, and the overall study considered more robust. Multiple cases have a characteristic of replication as opposed to sampling logic. Replication is analogous to results obtained from multiple experiments. If similar results can be obtained from a set of multiple cases then replications is said to have taken place (Yin 1994). The logic underlying the use of multiple case approach is therefore the same as for multiple experiments. Each case must therefore be carefully selected so that it either predicts similar results, which affords a literal replication, or produces contrasting results, but for predictable reasons, which can be considered as theoretical replication.

This thesis examines three different organisations as separate studies, analysed against the theoretical propositions detailed in Chapters 2 and 3. This is consistent with the concept of a multiple case approach, as identified by Yin (1994), and results in a more substantial study than if only one organisation were considered. An important step in all of these replication procedures is the design of a rich theoretical framework. The framework needs to state the conditions under which a particular phenomenon is likely to be found, as well as the conditions under which it is not likely to be found. The framework then becomes the vehicle for generalising expected outcomes from new cases. Chapters 2 and 3 present such a framework based on secondary research sources. Hence another outcome of this thesis is expected to be the establishment of guidelines, to assist organisations in designing ethical systems which will be ‘in fit’ with their organisational structures. This is consistent with another of the recognised outcomes of case study research, of ‘generating recommendations and alternative solutions’ as proposed by Lethbridge, Petzall, and Selvarajah (2002, p. 4).

1.6.5 Replication Logic and Multiple Case Studies

Replication logic needs to be distinguished from the sampling logic commonly used in surveys. According to sampling logic, a number of respondents, or subjects, are drawn from a larger pool of subjects or respondents. The resulting data from the sample is assumed to reflect the entire pool or universe, with inferential statistics used to establish confidence levels of accuracy for representative samples (Yin 1994). The application of this sampling logic to case studies would be misplaced. Case studies ought not be used to access the incidence of phenomena, as such cases would then have to cover both the phenomena of interest and its context, yielding a large number of potentially relevant variables. It would be very difficult to examine empirically many of the important topics; for example the managerial function of leadership would produce dozens if not hundreds of relevant variables (Yin 1994).

The thesis is not concerned with issues of sampling logic, nor is it proposed that the research would necessarily predict the incidence of the phenomena. Rather, the desired outcome is the development of a framework articulating the characteristics of a formalised ethical system most appropriate for different organisational structures. Such a framework would then be useful in researching other case studies.

1.6.6 Multiple Case Study Design.

The replication approach to case study method includes the initial step of theory development, followed by case selection and then definition of specific measures, such as the design and data collection process. Each individual case is an independent study, in which convergent evidence is sought regarding the facts and conclusions for the case. The conclusions reached then require replication in other individual cases for reliability and validity. For each individual case, a report needs to be prepared indicating how and why a particular proposition has been demonstrated or not demonstrated across the cases. The report also needs to indicate the extent of the replication logic and why certain cases have been predicted to have certain results.

A further question, when considering whether to use multiple case study approach or not, is what are the number of case studies deemed necessary for the study. Three major organisations were identified as appropriate case studies in this thesis: RMIT

University, (a large publicly funded institution); BHP Pty Ltd (a large multinational organisation, primarily involved in mining and petrochemicals) and The Body Shop Australia and New Zealand (a large franchise cosmetic organisation). These organisations were selected because all represent large bureaucracies. They utilise rules, policies and procedures, (formalisation) as a primary method of directing and controlling employee behaviour. Such formalisation is recognised as a significant cultural technique in bureaucratic organisations (Child 1986). In addition, all three organisations have made conscious attempts to develop ethical cultures, through the development of ethical systems that include many of the techniques discussed in Chapter 3.

1.6.6 Types of Research and Sources of Evidence

According to Yin (1994), there are six sources of evidence that can be used in data collection for case study approach: documentation, archival records, interviews, direct observation, participant observation and physical artefacts. No single approach has a complete advantage over the others, rather the sources are complementary. Kidder et al. (1986) suggested that these sources can be categorised under three broad headings: primary, secondary and tertiary sources. An effective case study approach would use a number of these sources, as is the case for this thesis.

1.6.7.1 Primary Sources.

Anderson, Durston and Poole (1978) identified primary sources as including first hand accounts of investigation, such as previous theses, interviews, and guidebooks containing factual information. Published and internal organisational documents can also be considered as primary research. Yin (1994) identified that the most effective use of documents in case studies is for corroborating and augmenting evidence from other sources.

Previous theses that identified the application of codes of ethics and conduct in Australian organisations have been researched and relevant findings discussed in the preliminary chapters outlining the theoretical framework of this thesis. In addition, internal organisational documents, including drafts of codes, committee reports and culture surveys relating to the three case studies, were used as a primary source of

information. Published information pertaining to each of the three case study organisations was also identified. These included annual reports from the publicly listed BHP Pty Ltd, The Body Shop's social responsibility report 'The New Bottom Line', and The RMIT's Strategic Plan and Annual reports. In addition, internal documents were accessed including press releases, policy and procedure documents, and training manuals. Audiovisual and computer generated material designed to support ethics programs, such as audio-video compact discs and material published on the Internet, have also been sourced as primary data.

1.6.7.2 Interviews and Focus Groups

Bauer and Gaskell (2000) and Yin (1994) argue that one of the most important sources of data for case studies are interviews. These are most commonly informal, utilising a discursive approach, so that issues of fact as well as opinion can be sought from the interviewees. In some cases the interviewee may be asked to propose their own insights into certain occurrences, with the interviewer using such information as the basis for further inquiry. The more a respondent assists in this latter manner, the more they may be considered an informant rather than respondent. Key informants are often critical to the success of a case study. Such persons not only provide sources of collaborative evidence but also can often initiate the access to such sources.

A second type of data source is the focused interview. Here the respondent is interviewed for a short time only, usually an hour or less. In such cases the interview remains open-ended and assumes a conversational approach. Such interviews are predominantly used to corroborate aspects of the study the researcher believes to have already established. It is important that the questions are carefully worded and not leading ones, so that the respondent provides a genuine response (Bauer & Gaskell 2000).

A third style of interview tends to be more structured, by the use of a prepared questionnaire in a formal interview. This approach involves the use of both sampling procedures and instruments contained in regular surveys with the data collected from such a survey being considered as only one source in overall investigation (Bauer & Gaskell 2000).

Personal interview methodologies have specific advantages, including the ability of the interviewer 'to notice and correct the respondent's misunderstandings, to probe inadequate or vague responses and to answer questions and allay concerns' which are important in obtaining complete and meaningful data (Kidder et al. 1986, p. 225). This is important for obtaining complete and meaningful data. It is also recognised that such approaches give rise to interviewer effects; for example, a tendency for respondents to give invalid but socially desirable answers to suit the interviewer's expectations (Bradburn & Sudman 1979; Kidder et al. 1986). Yin (1994) has suggested that a major problem with the interview is that it can influence the interviewer and thus the data. He suggests that interviews should always be considered as verbal reports, subject to the problems of bias, poor recall or inaccurate articulation. Thus it is important to corroborate such evidence by the use of other sources. A reasonable way of dealing with this would be to rely on other sources for contrary evidence (Yin 1994).

Group interviews are often referred to as focus groups (Hughes, Bryman & Burgess 1994). Yin (1994) indicated that they were originally developed primarily for opportunistic market research, or to explore the dimensions of a project as a preliminary phase in social research. Hughes et al. (1994) have suggested that a significant advantage of the focus group method is the opportunity for uncovering issues not previously thought of by the interviewer. Participants in a focus group are more likely to use their own language and themes to expose their shared cultural concepts.

Both structured and semi-structured interviews were used as a major source of information from each of the three case studies in this study. Key organisational members were identified in each organisation as having a critical role in the development of the ethics system. Interviews lasting for approximately one hour were conducted with each individual involved, as well as with open-ended focus group interviews in each organisation. (Refer to appendix 1 for a copy of semi-structured focus groups questions) Interviews conducted for Case 1, The Body Shop Australia and New Zealand, included: the principal shareholder (and managing director), manager of stakeholder development; manager human resource management; manager of community programs and a focus group of eight employees, including departmental managers and administrative officers from the organisation's Victorian headquarters.

Interviews for Case 2, RMIT University, included: the vice chancellor, members of the RMIT ethics steering committee, the director of human resource management group (HRMG) and other key personnel from HRMG; the president of the National Tertiary Education Union, RMIT branch, and a focus group of approximately eight employees, ranging from senior academics to administrative and support staff. Interviews conducted for Interviews conducted in Case 3, BHP Pty Ltd, included: the manager of business environment and public policy (BE&PP); executive for global conduct; members of the advisory board global conduct (Global Forum); human resource management group and a focus group of employees consisting a ranging of middle to senior managers from BHP headquarters, Melbourne, Australia.

1.6.8 Other Data Sources

According to Anderson, Durston and Poole (1978), tertiary data sources include textbooks and summaries generated from secondary sources. For this analysis, the main tertiary data source includes theoretical works published as academic textbooks, whose prime focus was in the area of organisation s influences, both structural and political, and strategic management processes. The main purpose of the data is to provide justifications for the observations and statements made in the analysis. Chapter 2 is considered part of the literature review, presenting a summary of secondary and tertiary data sources relating to the creation, development, institutionalisation and evaluation of ethics systems within organisations. Chapter 3 is also considered part of the literature review, and presents a summary of secondary and tertiary data sources relating to: the nature of organisations as entities, the parameters of organisational design and the degree to which the literature dealing with organisational design has been used by authors in the fields of ethics, to present pro and con views of the organisation as a moral entity.

1.7 Criteria for Judging the Quality of the Research Design

Kidder et al. (1986) have proposed that the quality of research design can be judged against logical tests that consider the credibility and validity of the data collected. Yin (1994) identified four tests that are commonly used to establish the quality of any empirical social research.

- construct validity, which establishes the correct operational measures for the concepts being examined,
- internal validity, which seeks to identify internal casual relationships
- external validity or the extent to which the study's findings can be generalised, and
- reliability of the data collected

Appropriate operational measures are addressed in case study method, by using multiple sources of evidence in a manner that encourages convergent lines of inquiry, to establish a chain of evidence. This is properly established during the data collection period (Yin 1994).

A major strength of case study data collection is the opportunity to use many different sources of evidence. The need to use multiple sources far exceeds that in other research strategies. For example, surveys that are verbal or literal in nature emphasise information but not the recording of actual behaviour. Multiple data sources enable the process of triangulation to be applied so that potential problems of construct validity can be addressed. This is because the multiple sources of evidence provide multiple measures of the same phenomenon (Yin 1994). The use of multiple sources of data allows the researcher to address a broader range of historical, attitudinal and behavioural issues. The most important advantage presented by using multiple sources of evidence is the development of converging lines of inquiry, as part of the process of triangulation. Thus the findings and conclusion in a case study are likely to be much more convincing and accurate if based on several different sources of information (Yin 1994).

A range of sources have been utilised in the research, including: structured and open ended interviews with various organisational stakeholders, the collection of secondary sources such as policies and procedures, in addition to theoretical frameworks. Triangulation has been used to achieve convergent lines of inquiry and clear a chain of evidence. A primary goal of the research has been to identify whether a casual relationship exists between the structure of the organisation and the effectiveness of the ethical culture developed. A third goal has been to establish whether the study's findings can be generalised to other organisations. The three organisations chosen as the focus of the research are subject to replication logic and hence support external validity. Yin (1994) suggested that using case study when establishing a case study

database should ensure reliability of the data. A suitable case study protocol to be used in data collection for this research study has been identified in this thesis.

1.8 Analysing Case Study Evidence.

There is a need for an analytic strategy as part of the case study protocol. Such a strategy can often be based on the researcher's own style of rigorous thinking, allied with a satisfactory presentation of evidence and careful consideration of alternative interpretation (Yin 1994). The original objectives and design of the study have been based on a series of propositions that in turn led to a set of research questions, reviews of the literature and new insights. This has then led to the theoretical propositions explored, which have shaped the data collection process and influenced the relevant analytic strategies adopted in the case study. This is an example of a theoretical orientation guiding the analysis of a case study, focusing the attention on certain data and ignoring other data. Theoretical propositions about causal relationships answer 'how' and 'why' questions, and can be useful in guiding the case study analysis in this manner (Sarantakos 1998). Research has helped identify theoretical propositions concerning strategies used by organisations to develop their ethical cultures, and their relationship to the strategies used to design organisational structure. The primary data collected from the case studies is compared to these propositions as a means of establishing relationships between the two concepts.

A second analytic strategy is typified as pattern matching, where the goal is to analyse the case study data by building an explanatory framework for the case (Yin 1994). This creates a set of casual links for the situation being examined, which is often complex and difficult to precisely measure. In most case studies explanation building occurs in narrative form. Because narratives cannot be precise, better case studies are the ones in which explanations have reflected a theoretically significant proposition, such as when causal relationships provide insights into public policy or social science theory (Zikmund 1994). The early chapters of this thesis propose a framework linking ethical enculturation strategies, based on accepted ethical literature, and organisational structure and design. The framework will be used as an analytical methodology to support explanation building.

An important characteristic of effective case analysis is that the final explanation is achieved through a series of iterations. These include making an initial theoretical statement or initial proposition about policy or social behaviour, and comparing the findings of an initial case against such a statement or proposition (Yin 1994). As a result several actions may then be required, such as revising the statement or proposition, comparing other aspects of the case against the revision, comparing the facts of the case against a second, third or more cases, and then repeating this process as many times as is needed to effectively address the research question. In this sense the final explanation is not fully stipulated at the beginning of the case, and therefore differs from pattern matching approaches. With each case study, variations may occur between individual case findings and the analytical framework specified in the early chapters. For this reason, other explanations may need to be considered to explain such variations, or possibly the theoretical framework may need to be revised. Therefore it is expected that an iterative mode will need to be used in this thesis.

1.9 Outline of Thesis

This thesis argues that the use of organisational theory to define different structures can be used to design ethical systems appropriate to each structure. In this way an ethical system ‘in-fit’ with the structure will have greater effectiveness. However, unless the concept of the moral corporation can be established, the purpose of designing and establishing ethical systems for organisations cannot be supported. To illustrate this hypothesis, Chapter 2 will include reviews of current literature that detail the establishment of ethical systems. It will illustrate the predominance of the dual taxonomy previously mentioned, together with the common strategies and techniques suggested as necessary for developing an ethical culture. Chapter 3 will present a discussion of the literature that defines and describes different organisational types. It will also highlight that many of the concepts described in the previous chapter are structural variables, and demonstrate that a substantial part of the discussion concerning organisational moral responsibility uses structural theory to both support and reject the concept of the moral corporation. The final sections of Chapter 3 will integrate the two streams of literature and outline the structural factors that need to be addressed when designing appropriate ethical systems for the three Mintzberg bureaucratic configurations.

As a means of illustrating the relationship between organisational structure and organisational approaches to developing ethical systems, the three case studies examined have been presented as separate chapters. Primary research was carried out in all three organisations, using predominantly qualitative research methods. Each of the three chapters presents a description of the organisation studied, its structure and the strategies used to develop an ethical system. These have been classified according to the literature discussed in Chapters 2 and 3. An analysis of the ethical system for structural fit has then been presented, followed by a conclusion that draws inferences regarding the effectiveness of the ethical system. A final chapter brings together the findings from the three cases, with recommendations concerning future research.

Chapter 2

Strategies for Developing an Ethical Organisation

2.0 Introduction

Different organisational structures or configurations can be differentiated according to their internal characteristics of formalisation, centralisation and complexity. The strategies used by organisations to develop or encourage ethical behaviour directly relate to these characteristics. The most common technique is the use of codes of ethics and/or codes of conduct as a means of establishing behaviour standards, which is an example of formalisation. The use of behaviour modification techniques in support of the ethics system, namely training and development, and socialisation processes designed to establish a cohesive culture are also key strategies of organisation structure and design.

If organisations are concerned with creating an ethical culture then it stands to reason that different organisations require different types of ethical systems, reflected by varying levels of formalisation and enculturation strategies consistent with their organisational type. Hoffman (1995) suggested that corporations need to examine themselves to determine if their structures, policies and processes are compatible with ethical behaviour. If they are not, steps need to be taken to change or supplement them.

Whilst a substantial body of work exists relating to implementation of ethics within organisations, the literature does not provide detailed guidance on how to modify ethical strategies to suit different organisational structures. The absence of such direct relationship contributes to the ineffectiveness of organisational ethics. The purpose of this chapter is to review the literature surrounding the formal strategies and techniques used by organisations to develop ethical culture. The authors in this field have polarised the discussion of organisational ethics by focusing solely on compliance and integrity approaches. Whilst various strategies are common to both approaches, such as the need for written ethical statements, the need to communicate and train staff, etc, little information was found that provides guidance as to what combination or level of strategies should be used within different organisational types.

2.1 The Dual Typology of Organisational Ethics

Organisational theorists have established typologies to describe different organisational forms. [This thesis has predominantly used Henry Mintzberg's configuration typology to define, describe and categorise different organisational structures.] In business ethics literature, typologies have also been used to describe different approaches to developing ethical culture. These approaches are commonly referred to as organisational ethics, ethics systems or ethical frameworks.

Paine (1994) distinguished two categories of organisational ethics: the compliance approach and the integrity approach. Hoffman, Driscoll and Painter-Morland (2001) also proposed that organisational ethics could be categorised as either prescriptive or value based approaches. Jordan (1994) outlined a similar typology of ethics as enslavement versus ethics as enlightenment. Ferrell, Fraedrich & Ferrell (2002) suggested a typology of compliance and aspirational approaches. Trevino and Nelson (1999) described prescriptive versus psychological approaches. Hosmer (1991) distinguished between approaches based on codes of ethics, which he describes as the norms and beliefs of the organisation, as against an approach based on ethical rules that he describes as consisting of requirements to act in a particular way.

These authors identified that, irrespective of whether a system relies on prescriptive rules or aspirational statements, it must be incorporated throughout the organisation by using a variety of formal and cultural approaches. There is common agreement that the approach to ethics needs to be part of the strategic framework of the organisation and role-modelled by the leaders or senior managers of the organisation. However Paine (1994) distinguished between the characteristics of the two approaches and the characteristics of the implementation strategies. She defined the underlying ethos that drives each of the approaches, the broad behavioural objective, the role of leadership and the methods and behavioural assumptions of each broad approach (Donaldson & Werhane 1999). This typology can be used to classify much of the literature in the field of organisational ethics. As suggested in the introduction, most authors describe two categories of organisational ethics. The first parallels the compliance approach and the second category parallels the integrity approach. These two categories will be described in detail as will the absence of information in the literature as to when these approaches

should be used for different organisational types. This will be followed by a discussion of the common approaches advocated as appropriate enculturation strategies.

2.1.1 The Dual Typology of Organisational Ethics: The Compliance Approach

The compliance approach, which can also be described as a formalised or prescriptive approach, has an underlying ethos of conformity with a set of imposed standards. This approach can be seen as focusing on managerial measures designed to minimise or prevent misconduct and centres on standards that Paine (1994) described as external and not self-imposed by the organisation (Donaldson & Werhane 1999). The organisation specifies precise behavioural standards based on accepted external standards such as law or industry agreed codes then utilises basic positive and negative reinforcement techniques, to ensure compliance with the standards. Paine (1994) suggested that the compliance approach rests on external standards that exist in society, which the organisation internalises through formal policies and procedures. Its primary objective is to prevent misconduct within the organisation. This is directed at criminal conduct such as fraud, bribery and corruption within the organisation. Buchholz (1989) argued that law could be seen as the formalisation of the minimum moral standards.

Hoffman, Driscoll and Painter-Morland (2001) suggested that compliance approaches are characterised by specific statements predominantly referring to types of behaviour that the organisation has deemed unacceptable. Thus, accepted organisational behaviour would be prescribed in a formal organisational document that clearly identifies standards through statements of acceptable and unacceptable actions or behaviours. A code of conduct, as the basis of the ethics policy, is the main feature of such systems (Sampford 1994).

Paine (1994) suggested that the primary activity of compliance strategies is the development of standards through organisational policies and procedures, most notably through codes of conduct. The characteristic of these codes would be to reduce the discretion level of individuals and increase managerial control. She identified several supporting strategies, including: education designed to inform employees of the required standards, an effective communication of those standards, a system which allows reporting of misconduct to be investigated, and a compliance office or officers to evaluate effectiveness of the compliance system.

Hoffman, Driscoll and Painter-Morland (2001), also referred to compliance approaches, having identified similar characteristics: a company's ethics strategy not only built around written standards through a prescriptive code of conduct, but also underpinned by a code of ethics espousing the values of the organisation. They argued that appropriate strategies to monitor compliance with the code of conduct must also be developed. Such an approach is often referred to as a disciplinary code (Sampford 1994). This approach would be appropriate in organisations that utilise high levels of formalisation and standardise work through rules regulation and procedures.

Ferrell and Fraedrich (1992, 1997); Ferrell, Fraedrich and Ferrell (2002); Francis (1994, 2000); Harvey (1994); Lovitky and Ahern (1999); Richie (1996); Trevino, Weaver, Gibson and Ley Toffler (1999); Trevino and Nelson (1999) and Weiss (1994) also described similar compliance approaches emphasising legal compliance, formal codes of conduct, integration of the standards throughout organisational policies and procedures, compulsory training, the establishment of reporting mechanisms and the development of systems for evaluation of the ethics programme such as a monitoring system for compliance. A common theme is to develop a corporate culture that fosters ethical behaviour minimising fraud, waste and abuse.

2.1.2 Compliance Approach and U S Federal Sentencing Guidelines

According to Steinmann and Olbrich (1996), United States (US) Federal legislation has had a growing impact on US corporations and, subsequently, compliance approaches have been seen as the primary method of meeting the Federal requirements. The 1991 US Federal Sentencing Guidelines specifically addressed not only the personal responsibility of officials in corporations, but also the punishment for criminal conduct of organisations. Izraeli and Schwartz (1998) suggest that one of the primary reasons for the creation of the sentencing guidelines in the United States was the fact that the U. S. Government lacked clear and consistent policy with respect to corporations, for both conviction and sentencing. The impact was that judges experienced great difficulty in finding ways to sentence corporations convicted of breaking US laws. They cite empirical research conducted by the Sentencing Commission on sentencing practices that demonstrated 'corporate sentencing was in disarray.... nearly identical cases were

treated differently’ and it was found that average fines were ‘less than the cost corporations had to pay to obey the law ‘ (USSC 1995, p30).

The US Sentencing Commission specifically identified the development of an effective programme to prevent and detect violations of the law (USSC 1994) as a mitigating factor in the determination of the level of fines imposed on an organisation. Steinmann and Olbrich (1996) suggested that this is evidence of a financial incentive for building ethics programmes into US organisations. The extent to which this commission uses the existence of ethics programmes as a mitigating factor can be seen in the fact that, according to the USSC standards, a fine for an offence can be increased by a factor of four in the absence of appropriate ethical programmes, or mitigated to a factor of five.

The US Sentencing Commission established a set of guidelines that are binding under US law and published a manual with extensive descriptions to guide judges and others concerned with criminal cases. Steinmann and Olbrich (1996) stated that due to the more formalised and legalistic nature of the guidelines they will impact more specifically on the compliance approaches rather than integrity or aspirational approaches. This may have the effect of establishing a minimum of ethical standards among the majority of businesses in the United States. Conry and Fox (1994) identified the significant advantage of the sentencing guidelines as the maximisation of short-term compliance. They identified that self-oriented people and firms would comply to avoid penalties; where as other-oriented people and firms comply because it is the right thing to do. Izraeli and Schwartz (1998) proposed that the guidelines have had a significant impact on the establishment or enhancement of corporate ethics programmes and this is directly attributable to the relationship between the size of the fine and the existence of the compliance or ethics programme within the organisation.

The US commission had three basic principles and objectives with the development of the 1991 sentencing laws: the definition of a model for good corporate citizenship, to use the model to make corporate sentencing fair by providing defined objective criteria, and to use the model to create incentives for companies to take crime controlling actions. An American organisation is liable to sentencing, fines, periods of probation and other similar penalties, for federal offences connected with anti-trust activities, bribery, money laundering, criminal business activities, embezzlement and fraud. In the Guideline’s introduction it clearly identifies that an organisation operates only through

the activities and actions of its agents, its managers and employees, and is therefore liable for offences committed by them (USSC 1994). This can be directly related to the discussion raised in the introductory chapter of this thesis concerning the nature of the organisation as a moral entity and the responsibilities of its agents. It also links to Paine's hypothesis of the compliance approach creating ethical culture based on external standards, namely law. These concepts will be further explored in the following chapter.

According to Izraeli and Schwartz (1998) the objectives of the guidelines can be described as designed to achieve the following: (a) just punishment (b) sufficient deterrence and (c) encourage the development of internal mechanisms to prevent, identify and report criminal behaviour in organisations. According to Kaplan (1995) the guidelines list seven elements indicating the characteristics of an effective compliance programme. These include:

- (1) compliance standards and procedures such as a code of conduct or a code ethics,
- (2) oversight by high-level personnel such as compliance or ethics officers,
- (3) due care in delegating authority,
- (4) effect a communication standards and procedures such as training,
- (5) auditing and monitoring systems and effective reporting mechanisms such as internal hot-lines,
- (6) enforcement of disciplinary mechanisms and,
- (7) the rapid-response after detection on inappropriate behaviour.

As can be seen from the description of these guidelines, the compliance approach described by Paine and the model suggested by the US Sentencing Commission are very similar. It is likely that literature concerning effective ethical systems originating from the US, will tend to demonstrate US company trends to compliance programmes, as suggested by Steinmann and Olbricht (1996), because of the financial incentive or deterrent inherent in the guidelines. However, according to Kaplan and Walker (2002) the sentencing guidelines outlined that the first step for organisations is to design ethics standards and procedures that are tailored to the company's particular business and needs. This approach seems to be more consistent with Mintzberg's concept of fit. Given Hoffman's findings concerning organisations' lack of support mechanisms and structural change in US firms, it may suggest that the sentencing guidelines are effective at achieving minimal compliance, but not effectively tailored to organisational needs.

2.1.3 The Dual Typology of Organisational Ethics: Integrity Approaches

The integrity approach, by contrast to the compliance approach, tends to be organic and more flexible focusing on providing guidance through a series of general statements. Paine (1994, p. 112) described the necessities of ‘guiding values and commitments that make sense and are clearly communicated to employees’. She emphasised that organisational leaders need to be personally committed, credible, and willing to take action on the values they espouse. She also emphasised that espoused values need to be integrated into the formal channels of organisational decision-making and that the company's structure and support systems reinforce these values. Importantly, Paine identified that managers throughout the organisation must have the necessary decision-making skills, knowledge, and competencies to make ethically sound decisions on a day-to-day basis (Donaldson & Werhane 1999, Paine 1994).

Hoffman, Driscoll and Painter-Morland (2001) suggested that the aspirational, or value led framework, makes broad pronouncements regarding ethical standards in a code of ethics. They distinguish such codes of ethics as containing broad principles that allow individuals with an organisation to determine the action or decision that would be seen as ethical. In this way behaviour would be guided rather than prescribed as with a code of conduct featured in the compliance approach. Sampford (1994) suggests a code of ethics is generally based on the principles of virtue ethics that can be interpreted as the notion of what is virtuous or the moral concepts that society itself would espouse. This is consistent with the professional organisation, as described by Mintzberg (1981, 1985), which standardises behaviour via the skills of the professionals.

Few detailed statements are made concerning the specific organisational types in which these two approaches are appropriate; rather, many generalisations concerning the ethical system are made throughout the literature. Sampford (1994) argued that the integrity, value led or aspirational approaches are more appropriate in those organisations where the workforce already has a highly developed ethical and moral sense and where an additional rigid framework would be superfluous. Whilst according to Steinman and Olbrich (1996), the compliance approach is more mechanistic, planning orientated, reactive, highly selective and closed, given its orientation towards legal standards. Thus, it is considered rather inflexible and more appropriate to mechanistic structures. Hoffman and Moore (1992), Hoffman and Fredrick (1995) and Lagan (2000)

all identified that organisational contingencies need to be considered in the design of ethical system, but did not offer specific guidance on the extent to which structure needs to be taken into account. Many different configurations exist on the organic mechanistic continuum described by Lawrence and Lorsch (1967), yet the identified categories seem to apply to the organisations found only on the extremes of the continuum.

2.2.0 Developing Ethics

In Chapter 1 of this thesis a basic argument was put forward as to why organisations should be concerned with influencing the ethical dimensions of the decisions made by their agents or employees. The culture of an organisation is one of the primary determinants of behavioural standards, and numerous factors impact upon culture. Many of these, such as selection, training, policies and procedures, directly affect the type of culture that may develop within an organisation. The objectives of compliance and integrity approaches are to achieve ethical behaviour through enculturation. It is logical that the strategies utilised in each of the approaches would be consistent with literature surrounding organisational culture.

Whilst Paine's typology seems to polarise the approaches to organisational ethics, it should be recognised that the objective of the two approaches is essentially the same: the development and maintenance of an ethical culture. This common objective also parallels the range of strategies and techniques each advocates for enculturation. Both have at their core a written policy establishing moral standards. These documents can either be detailed and prescriptive, as found in the compliance approach, or more aspirational in nature, providing general guidelines to acceptable behaviour as found in the integrity approach. These policy documents are referred to as either codes of conduct or codes of ethics. Some organisations see the creation of a code as the sole component in the development of an ethical organisation. Once established, they believe the organisation somehow becomes ethical. This type of approach does not guarantee that ethical practice will follow, and it may result in failure (Connock & Johns 1995; Longstaff 1996).

Connock and Johns (1995) advocated the need for two documents as a starting point: a set of corporate values and an accompanying document, a code of conduct. The two documents supply a set of values, which are both prescriptive and proscriptive, leading towards ethical behaviour and actions. This distinction is consistent with both

compliance and integrity approaches (Paine 1994). The compliance approach emphasises clear behavioural standards often linked to legal requirements. Thus a code of conduct with its prescriptive standards is consistent with the compliance approach, whereas a code of ethics can be seen as an aspirational document more consistent with the integrity approach. What is evident with Connock and Johns' (1995) approach is the combination of the two approaches as an alternative to Paine's two separate typologies.

Kitson and Campbell (1996) and Vallance (1995) referred to the role of corporate codes as the basic strategy for encouraging ethical behaviour by establishing clear standards and monitoring systems. They linked this approach to managerial control, describing it as a system not unlike other business strategies. Vallance (1995) argued that to rely on personal moral scrupulousness to insure ethical action is both time-consuming and uncertain. DeGeorge (1999) described corporate codes as attempts to define the moral principles or standards of an organisation. He similarly distinguishes between those approaches that emphasise legal requirements, particularly focused on issues such as bribery, corruption, and gift giving, and those approaches that are less specific and provide only moral guidance as distinct from moral rules. The former is consistent with Paine's compliance approach, the latter the integrity approach.

2.2.1 Ethical Culture and Behaviour

Ferrell and Fraedrich (1997) suggested two ways in which an organisation can enhance the ethical behaviour of its workforce. One way of improving corporate culture, is through the influence of significant others such as peers, colleagues and superiors who have great impact on employee behaviour. They identify the influence of significant others as the most important factor in determining how an individual learns and responds to ethical issues. The second way of improving corporate culture is through the presence of a mechanism for deterring unethical behaviour and rewarding ethical behaviour. An employee who behaves unethically, but is not brought to account for such behaviour, will learn that behaviour of this type is acceptable to the organisation and so will co-workers (even if the organisation's stated ethical policies prohibit such conduct).

Trevino and Nelson (1999) recognized that leadership, structure, selection systems, orientation and training programmes, rules, policies, reward systems and decision-

making processes all contribute to the creation and maintenance of an organisation's culture. Most theorists identify the function of leadership as crucial in the establishment and maintenance of an organisation's ethical culture, as integrity flows from the top down. According to Campbell and Tawadey (1992), the leader moulds the organisation's value system through the creation of a philosophy. Trevino and Nelson (1995) highlighted that in surveys of practising managers honesty and competence emerge as the most important qualities identified as essential to good leadership. Clearly leaders can be seen as role models promoting and modelling appropriate or inappropriate behaviour.

2.2.2 Formalised Cultures

Highly structured organisations (bureaucracies) use rules and regulations to establish and maintain the performance levels of staff. An objective of formal structures is to reduce any difference in behaviour of the employees (Robbins 1990). This concept is referred to as standardisation, which can be achieved through both rules and policies regarding work, knowledge and skill, or through organisational culture (Mintzberg, 1998). Organisational culture should reinforce the strategy and structural design that the organisation needs to be effective (Daft 2001). Culture strength refers to the degree of alignment between organisational members about the importance of specific values in the organisation. If widespread agreement exists amongst the members then the culture can be described as strong and cohesive. If little congruence exists then the culture is described as weak (Brown 1998). In terms of an ethical system, a strong cohesive culture is likely to lead to a support and use of ethical decision-making systems such as codes of conduct, codes of ethics and reporting systems. To understand the ethical conduct of individuals in the organisation, one must look more specifically at the behaviours that are rewarded and punished, and how this system aligns with the rest of the ethical culture (Brown 1998; Child 1986).

Socialisation often begins through formal orientation programmes and is reinforced through ongoing training. Driscoll and Hoffman (1999, 124) suggested that 'training is a process that helps individuals develop character, which gives them room for dialogue and self-examination and which encourages sound judgement.' They argue that effective ethics training assists employees in two distinct areas of decision-making. Firstly, it raises awareness about ethical issues and reinforces the organisation's

viewpoint on values and secondly, it equips employees with decision tools which enables skill building and reinforcement. Thus it is not sufficient to simply raise ethical awareness within an organisation, or clarify what is, or is not, an ethical dilemma through written policies or guidelines, but it is also necessary to equip people with ways of dealing with or resolving problems in a manner consistent with other organisational processes. This can be achieved through structured training and development programmes (Rothwell & Kazanas 1990).

2.2.3 Informal Cultural Systems

In addition to formal systems, an organisation's culture is kept alive informally and symbolically through informal norms, heroes, rituals, myths and stories. Information about these is carried through informal communication systems such as the grapevine (Trevino & Nelson 1999). This is consistent with the concepts of culture described by Bartol, Martin, Mathews and Tein (1998); Brown 1998; Robbins (1990) and Schein (1997). In this way, people come to know what behaviours are *really* rewarded, how decisions are *really* made, and what is really valued within the organisation. An objective of any ethical framework must be to ensure consistency between the informal and formal cultures. As will be discussed below, the function of senior managers as ethical role models plays a crucial role in the establishment and maintenance of appropriate culture.

2.2.4 Developing an Ethical Culture

According to Trevino and Nelson (1995, 1999) ethics is an integral part of the organisation's overall culture. Designing an ethical organisation means systematically analysing all aspects of the organisation's culture and aligning them so that they support ethical behaviour and discourage unethical behaviour. Schein (1997) argued that organisational culture is a function of three interrelated components: (1) the artefacts that are the physical manifestations of culture such as dress, language, and organisation logos. (2) the values of an organisation which represent the beliefs and stated values that validate the artefacts and (3) the core assumptions which relate to the individual's basic beliefs about right and wrong behaviour. As will be demonstrated later in this chapter, organisational culture can also be classified according to its characteristics, given the concept of fit described by Mintzberg (1981, 1985), so too can organisational culture

can be seen to be in fit with organisational structure. Daft (2001) referred to this as cultural strength or the degree to which the organisation's culture is aligned or misaligned to organisational purpose. Assuming that structure is designed to achieve organisational purpose, so too can culture be seen as in fit with structure and thus enhance organisational effectiveness.

Changing organisational culture is more difficult than developing it. In a new organisation, workers are quite open to learning and accepting the culture of their new home. This concept is supported by Bridges (1993); Dunphy and Stace (1991) and Harvey and Brown (2001) through the identification of cultural strength and organisational learning. However, as pointed out by Trevino and Nelson (1995), if the effort is to be successful, the ethical culture development or organisational change should involve the alignment of all relevant formal and informal organisational systems. This is the major contention of this thesis. The finest policies and designs will be limited in their effect if organisations do not develop processes that allow effective implementation and concerns, problems, and disagreements to be raised then responded to. Ley Toffler (1986) suggested this requires attention to making ethics a legitimate topic of discussion and developing and supporting effective communication at and between all levels of the organisation.

2.3 Key Features in the Development of Ethical Cultures

There is general agreement amongst much of the literature about the strategies or steps organisations must take in order to establish an ethical culture. At the Center for Business Ethics, USA, Driscoll and Hoffman proposed ten basic steps that companies could take when designing an ethical framework. According to Preston (1996) the creation and adoption of an ethical system within an organisation, which can also be termed the *institutionalisation of ethics*, should be seen as a multi-faceted approach that 'main-streams' concerns about the ethical issues facing organisations. Sampford (1994) also outlined a general strategy for the institutionalisation of ethics specific to the public sector, the principles of which are equally applicable to other industries and organisations. Many other ethical theorists such as Ferrell and Fraedrich (1997); Kitson and Campbell (1996); Ritchie (1996); and Trevino and Nelson (1995, 1999) have developed similar guidelines which detail the components of an organisational ethical framework.

An analysis of the organisation is identified by Hoffman, Driscoll and Painter-Morland (2001) as a credible starting point. This is also a concept supported by Harrison (2001) and Lagan (2000) who argued that a review of existing policies and structures and a comprehensive risk assessment need to be undertaken in order to establish if, and where, ethical problems exist in the organisation. This is best done, according to Preston (1996), by establishing an ethics steering group that can consult with organisational members to develop a profile of ethical issues and typical scenarios as faced by organisational members. Whilst he does not specify the type of committee or its position in the organisational structure, he identifies its role of raising ethical awareness prior to the introduction of new policies or strategies. This is consistent with much of the organisational change and development literature, in particular the change model developed by Kurt Lewin, who advocated the unfreezing of entrenched behaviours as a necessary first step in any change process (Carnall 1999). Gailbraith (cited in Child 1986) terms such committees an example of liaison devices in organisational structure. He identified other devices including liaison positions, integrating managers and temporary matrix structures which, he suggested, needed to be used according to the organisational context. This supports the contention of this thesis concerning structural fit.

A common feature of most ethical frameworks is the emphasis on senior management support both visible and through ensuring that sufficient resources are made available (Hofman, Driscoll & Painter-Morland 2001). Preston (1996) described this as a preparatory phase that involves raising the awareness of the need for ethics within the organisation. Recognition by the senior managers that organisational ownership, through the use of participative approaches and the involvement of those to be affected by the ethical system, is a basic tenet of management theory. By involving people in decisions it is more likely that they will be more committed to them (McKenna 1999).

According to Brooks (1989), Bowie and Duska (1990) and Moon and Bonny (2001) formal policy that outline either ethical values or accepted behaviours is a feature of virtually all ethical frameworks. Weiss (1994) argued for a clear statement of the organisation's values, clarification and definition of the moral identity of the organisation, both internally and externally--as this sets the moral standards within the organisation--and the creation of stable and consistent guidelines for right and wrong

actions. Preston (1996) and Sampford (1994) described the development of a general aspirational code of ethics, similar to Paine's integrity approach, which is based on the organisation's values. This clearly parallels the concepts of formal written policies identified above. Like Hoffman (1995), Preston (1996) identified the importance of instruction and a motivational base for training in ethical guidelines and for the integration of ethics into organisational policies procedures and problems. Similarly he concurs with the need for a support system for employees who are placed under pressure or subject to improper demands. Francis (1994, 2000) stated the fundamental principles of a sound ethical culture starts with establishing the ethical standards of the organisation. Preston (1996) also argued for the development of a more detailed and specific code of conduct that addressed the critical issues or sensitive ethical areas identified in the first stage of process. This is similar to Sampford (1994) who suggests the development of agency specific codes relevant to a particular group.

Hoffman, Driscoll and Painter-Morland (2001) argued that ethical standards must be communicated to all members of the organisation. Francis (2000) described reporting mechanisms as serving an important communication function bringing to the attention of the organisation breaches of standards, communicating the standard to those who will need to apply it and finally resolving ethical issues that arise as a result of the standards. Following communication of the ethical standards, employees need to be equipped with skills and knowledge to enable them to act ethically (Hoffman, Driscoll & Painter-Morland 2001). Preston (1996) also advocated development and implementation of an ethics education and training programme to assist all members of the organisation to understanding the codes and to use them in resolving dilemmas, as well as providing special ethics training for organisational new starts. Sampford (1994) concurs that ethics education can assist people to understand the relevance and application of the ethical code. Ethics training is also promoted by Farrell and Fraedrich (1998), Francis (1994, 2000) and Trevino and Nelson (1999).

There is an emerging body of literature that focuses on business ethics education; in particular, its application within institutions such as secondary schools and universities. This raises the issue concerning the difference between formal education and on the job training. A distinction needs to be drawn between training and development. Fitzgerald (1992) implies that university education is the focused in-depth acquisition of knowledge with a primary purpose of education and that it is not job related. Parnell

(1996) suggests that formal education should focus on the development of metacognitive and self-evaluative abilities so they can be self-directed in learning. Fitzgerald (1992), Kroehnert (1990) and Laird (1985) maintain that the function of training is directly linked to an individual's current job requirements. "It is the acquisition of knowledge and skills for a present task and a tool to help individuals contribute to the organisation and be successful in their current position" (Fitzgerald 1992, p. 81). Moore (1998) suggests that it does not provide a broad perspective nor flexibility. Development is described as having a longer-term educational purpose, providing opportunities for individuals to acquire knowledge relevant to future job requirements. This is consistent with the description of formal education as mentioned above. Business ethics education literature will have relevance to ethics training in terms of educational methodology, preparation of learning materials and media selection. This latter issue is addressed later in this chapter, however, it is not seen as central to the argument that ethics training should occur. Rather, the benefits of ethics training as a communication tool and immediate skill development are of greater relevance to the need for organisations to adopt a strategic approach to the creation of ethical culture.

Related to training and communication are the tools and techniques that employees use in identifying and resolving ethical dilemmas. Hoffman, Driscoll and Painter-Morland (2001) specifically referred to the use of support systems such as hot lines, decision-making guidance and reporting systems as necessary to enable people to actually use the ethical system. Preston (1996) also suggested structural support through the appointment of an ethics committee that includes an external or independent adviser with recognised expertise in the field of ethics. The purpose of the committee is to provide guidance and to monitor the development and implementation all the ethics strategy regime. Preston is, in fact, advocating a structural change to the organisation through the creation of a separate functional group. Sampford (1994) identified the need for a similar type of group that he refers to as ethical circles to assist in the development and interpretation of the code of ethics. Preston (1996) goes further suggesting focus groups across the organisation to discuss the implications of the code for employees. He argued that this is a necessary step in order to convince the organisational members that the ethics regime is not a tool of management. This is consistent with the concepts identified earlier concerning obtaining commitment from employees through participative approaches to decision making.

Consistent response and enforcement strategies are also identified by Hoffman, Driscoll and Painter-Morland (2001) along with the use of positive and negative motivational techniques, such as organisational rewards and punishments, as a means of maintaining and encouraging desired behaviours. Similarly, Preston (1996) advocated the development of institutionalisation or support strategies such as disciplinary elements and clear whistleblower protection. The establishment of feedback mechanisms so as to ensure ownership by organisation members and, related to this, reporting to members about best and worst ethical practice, are seen as part of the feedback process enabling a review of the regime to be conducted regularly to ensure relevance and reinforce ownership (Preston 1996). Lastly, he recognised the importance of appointing an ethics adviser or an ethics officer to assist individuals who may feel unable to utilise the traditional hierarchical system or other reporting mechanisms within the organisation. Sampford (1994) also argued for an Ethics Office (industry wide) to promote, research and advise organisations on ethics and institutionalisation issues. There is a clear link between these strategies and the policies and procedures already established through organisational structure such as authority lines and accountability systems established through performance management systems.

Driscoll Hoffman and Painter-Morland (2001) argued that audits of the ethical system must be introduced to determine whether the ethical framework is meeting its stated goals and objectives. Preston (1996) also discussed the development of mechanisms for monitoring and encouraging discourse around these critical issues so that they are integrated into management and accepted by all stakeholders, to the extent that it has an ongoing impact on the practices and policies of the organisation. Harrison (2001) and Lagan (2000) described the concept of ethical audits as the process of revision and refinement. Having undertaken a review, changes should be introduced which improve the performance of the system.

An examination of ethics literature reveals general agreement with these basic characteristics. An earlier model put forward by Hoffman (1995) outlined similar elements for the creation of an ethics system including; the need for an organisation code of ethics, appropriate alteration of organisational structure and systems to facilitate the codes and appropriate ethics training and development. Buchholz (1989) identified seven mechanisms to institutionalise ethics including a code of ethics, ethics

committees, judiciary boards, ethical ombudsmen, ethics training, social audits and changes to corporate structure. Ferrell and Fraedrich (1997) included compliance standards and monitoring systems, involvement of high-level personnel, effective communications and continuous improvement. Similar models are put forward by Buchholz (1989); Donaldson (1989); Driscoll and Hofman 1999; Kitson and Campbell (1996); Mahoney (cited in Harvey 1994); and Ritchie (1996).

The *Corporate Practices and Conduct* booklet (Bosch 1996), the result of an Australian Business Council committee chaired by former National Companies and Securities Commission head Henry Bosch, advised companies and directors on both their legal and moral obligations. The committee put forward a model for the establishment of an ethical system, which sought to commit a company to the highest possible standards of behaviour by using a participative approach to development, involving management, particularly senior management. It was sufficiently detailed to give a clear guide to the behaviour of all employees. As with the models described above, the committee stressed the importance of total and demonstrable commitment from senior management, company boards and chief executive officers.

2.3.2 Frameworks for Institutionalisation

An examination of the models highlighted by the examples above reveals that whilst there are differences between the ethical models, there appear to be consistent elements that most advocate if ethical effectiveness is to be achieved.

2.3.2.1 The Importance of Corporate Values

A common theme in the literature is that every organisation has values even if they are not consciously articulated. 'Publishing a set of declared corporate values is an attempt to specify business conduct guidelines that, as a minimum, will constrain and direct the actions of employees in their corporate role' (Connock & Johns 1995, p. 88). They suggested that the integration of ethics within an organisation requires values to be embodied in the patterns of action and interactions rather than being reflected only through codes and management rhetoric. Values can either be descriptive or normative. Descriptive values describe existing values. This can be an advantage if they are accurate; however, if the organisation's actions differ from those described, employees

and stakeholders can perceive such values as hypothetical and view them with cynicism. Monitoring the organisational climate to detect this is important (Connock & Johns 1995). Normative values are those the organisation ought to have and tend to be aspirational in nature. A major disadvantage is that some may perceive the organisation as acknowledging that these values are not currently being achieved, therefore ongoing recognition and communication of achievements is important (Connock & Johns 1995).

Longstaff (1994) identified the establishment of an ethical climate must also involve employees in addition to senior management. The tendency to develop ethical values at the higher levels of an organisation and 'push' them down the hierarchy has a limited impact, as there is no 'pride of ownership' in the code. However, the involvement of the strategic or executive level at this point is crucial, as it will show all employees that there is commitment to the process from senior people within the organisation. A cohesive organisational vision can balance macro-ethical issues by meeting a number of agreed ethical principles and examining the long and short-term affects of the business purpose on people and other groups related to the organisation. Different ethical issues will arise among various stakeholders, including: shareholders, customers, staff, suppliers, and the community. A vision can reconcile the conflicting claims of different interest groups.

Goodpaster (1991a) identified stakeholder theory as one method by which an organisation can manage its economic mission, while at the same time addressing critical concerns of business ethics. He suggested that ethically responsible management includes careful attention, not only to stockholders, but also to stakeholders as part of the decision-making process; however, he also recognises that the relationship between managers and these groups can be problematic, referring to this as the stakeholder paradox. Goodpaster uses Freeman's (1984) definition of a stakeholder as 'any group or individual who can affect or is affected by the achievement of organisational objectives'. In order to clarify the impact that the use of stakeholder analysis may have on the ethics of an organisation, Goodpaster (1991a) distinguished between stakeholder analysis and stakeholder synthesis. He suggested that the former is the collection of information about the decision options available, the short and long-term implications that must be considered as part of the decision-making process. These implications are then analysed with specific attention to the affected parties and to the decision-maker's goals, objectives, values, and responsibilities. This process can be considered amoral in

nature, not necessarily considering any aspect of moral judgement as part of the decision making process. Goodpaster (1991a) distinguished stakeholder synthesis to include the not only consideration of the purpose and ethical character of the various decision options, but also an analysis of the decision-making sequence and the articulation of these implications of implementation for each affected stakeholder. He argued that stakeholder synthesis offers a pattern, or channel, by which to move from stakeholder identification to a practical response or resolution. He specifically identified stakeholder synthesis as a strategic approach to ethical decision making.

Connock and Johns (1995) concur with Goodpaster's assessment of stakeholder theory suggesting that it does not tell us who may legitimately claim to be a stakeholder, what they may claim, who should decide whether to give it to them. It may also confuse organisation priorities. Agenti (1993) suggested alternatives: the 'no harm principle' whereby no organisation should knowingly cause significant harm to interest groups, and the 'principle of engagement', where the organisation proactively reaches out and involves anyone who can contribute to the success of the business. Connock and Johns (1995) identified some disadvantages where companies do not always apply these principles and in some cases deliberately set out to harm a stakeholder. However, Agenti (1993) maintained that the simplicity of these principles is the advantage. An organisation causing harm must desist, neutralise the damage, or offer full compensation. The principle of engagement suggests that an interest group like the community should be treated in whatever ways best engage enthusiasm for the greater good of the organisation's beneficiaries (Connock & Johns 1995).

This discussion has established that there is consensus that a formal or written document that commits the organisation to ethical behaviour needs to be established, the most common forms being codes of ethics or conduct. The development of the ethics policy needs to be based on an appropriate principle. A key feature of any business policy is the evaluation of the programme to determine its effectiveness. Ethical audits identifying sensitive areas of the organisation and disclosure of the findings are seen as an important process of verification and improvement. An organisation needs to consider the best way to establish ethical behaviour as a norm. Acceptance of ethical approaches by employees seems to be dependent on aspects of culture, effective training and ongoing communication. The modification of structure to incorporate ethics, through horizontal differentiation, vertical differentiation and standardisation strategies

via formalisation, is crucial and consistent with the concept of fit as outlined by Mintzberg (1981, 1985). What must be addressed are the structural issue of who will be responsible for the ethics programme, the related issue of compliance and the reinforcement of ethical behaviour through appropriate rewards with deterrence through relevant sanctions.

Organisations need to have ethics as part of organisational strategy. Importantly there is agreement that leadership plays a critical role, both in terms of modelling behaviour, previously identified as an important cultural determinant, and as organisational champions, ensuring the ethics success of the programme. Most often these concepts will be reflected in a company's mission or values statements.

2.3.2.2 Leadership's Strategic Role in Ethical Systems

Much of the ethics literature recognises the importance of the leadership function and its relationship to strategic planning. Sims and Brinkmann (2002, pp. 327-339) cited the Business Roundtable report (made up of executives from major American corporations), that identified leadership as crucial to the establishment of organisational ethics: 'to achieve results, the chief executive officer and those around the CEO need to be openly and strongly committed to ethical conduct and constant leadership in tending and renewing the values of the organisation'. Powers and Vogel (1980) pointed out that management finds its *raison d'être* in organisational purpose and that corporate goals determine the general direction and criteria of business judgments, hence, the importance of a clear corporate ethos or mission statement (Hoffman & Fredrick 1995). Hoffman, Driscoll and Painter-Morland (2001) identified that the ethics initiative could be deemed to start with senior managers making an explicit commitment to long-term success. They stress that the executive level of an organisation needs to assume responsibility for ethics and ensuring appropriate resources and clear responsibility be established. They argued that ethics must be managed like any other internal function. Just as the financial integrity of an organisation is established through the appointment of financial officers, and, with larger organisations, finance sections and divisions, so too must the ethical system be characterised by a structured approach that would increase in importance as organisational size increases.

Lagan (2000) concurs, saying that management vision and commitment are the most vital ingredients in any successful ethical programme. Valance (1995) also recognised the importance of ethics as an organisational strategy suggesting that while some businesses may be financially sound and well-structured, without values and an ethical basis there is no guarantee that the organisation will generate positive outcomes within society. Ferrell, Fraedrich & Ferrell (2002); Kitson and Campbell (1996); Petrick & Quinn (1997) and Weiss (1994) all established a clear link between the strategic function and the leadership of the organisation.

Ethical leadership relates to the clarity of vision and long-term consistency in pursuing the vision. 'Strategy and ethics go hand in hand. Strategy is concerned with purpose and values and so is ethics' (Connock & Johns 1995, p. 3). Ethical leadership is the first and foremost strategy in influencing ethical organisational behaviour; it is not the corporation itself that exerts moral responsibility but rather the individual members of the corporation. Connock & Johns (1995, p. 3) and Ritchie (1996) suggested that initial resistance to the development of a code of ethics from the board of directors and managers is likely, as they may consider that they should have a 'different set of rules'. They identify that the higher up the corporate tree one progresses, the more ethical dilemmas are faced - most particularly the problem of whether the end justifies the means. This is consistent with Longstaff (1994), who advocated the need for ethics training of executives to inform and educate those ultimately responsible for organisational performance.

2.3.2.3 Leadership's Role in Organisational Culture and Ethics

Drummond and Bain (1994); McCoy (1985) and Sims and Brinkmann (2002) argued that one of the most critical aspects of corporate culture is the moral tone and example set by top leadership, irrespective of whether compliance based or integrity systems are used in an organisation. The dominant core values of the firm's culture are formulated at the top and its authority structure begins there. Thus ethical behaviour must begin at the strategic level (Drummond & Bain 1994). This point is emphasised by Trevino and Nelson (1995, 1999) who identified that leadership is crucial to the ethical behaviour and culture of an organisation, as integrity--or the lack of it --flows from the top down. They suggested that this is a truly profound statement as history has shown that employees of an organisation will follow the actions of senior management, irrespective

of the existence of a code of ethics or a code of conduct. Sims and Brinkmann (2002) identified that the relationship between leadership and ethical culture or climate determines the level of behavioural consistency, that unethical leaders tend to attract more attention than ethical ones, and they have greater potential to influence employee behaviour. The personal values of senior executives, reinforced by their authority, set the ethical tone of the organisation. They suggested that leaders who failed to identify key organisational values, and failed to demonstrate these to organisational members through examples and role modelling and also failed to ensure reinforcement through organisational policies, demonstrated a clear lack of ethical leadership and fostered unethical organisational culture. If employees do not perceive senior managers to be complying with ethical policy, they may tend not to comply themselves. Schein (1997) suggested that leadership is a crucial component in the establishment of organisational culture because it is the leaders who create, maintain or change that culture. The notion that corporate leaders are responsible for ethical culture has also been identified by a number of theorists including Barnard (cited in Robbins 1998), Paine (1994), and Trevino and Nelson (1999), who describe the executive's role of creating the morals or values of an organisation, as a characteristic of executive work distinct from that of other organisational members. Hosmer (1991) contended that it is the senior executives of the organisation who define and espouse the organisation's beliefs and norms. This is consistent with most organisational behaviour theory, which identifies that one of the sources of organisational culture is the beliefs or values of the founders and or leaders of an organisation.

Sims and Brinkmann (2002) suggested the consideration of organisational culture as an indicator of ethical climate can provide greater insight into the relationship between leadership and employee behaviour. Schein (1985, 1997) defined organisational culture as the basic assumptions and beliefs shared by members of a group or an organisation. These assumptions and beliefs involve the group's view of the world, their place in it, the nature of time and space, human nature and human relationships. He asserted that it is culture that reduces the levels of uncertainty within the organisation and thus informs organisational members about how situations should be handled and the behaviour expected of them.

Schein (1985, 1997) argued that the leader's focus of attention, and thus his or her actions, communicates values to employees. Organisational leaders communicate

priorities, values and beliefs through their actions, previously described as role modelling. Sims and Brinkmann (2002) suggested that if leaders are consistent in their behaviour then employees receive clear signals about what is important in their organisation. However, inconsistent actions by leaders result in employees spending significant time trying to decipher and find meaning in the signals. Trevino and Nelson (1999) have identified that an emphasis by organisational leaders on short-term financial results will affect the decision-making of individuals in the organisation who will act in accordance with the message to be short term. Schein (1985, 1997) suggested that the way leaders deal with a crisis communicates a powerful message about culture and emotions. He also maintained that these are heightened during a crisis and behavioural learning is intense. He further suggested that during crisis the leader's values and beliefs are accentuated and more easily discerned.

Schein (1985, 1997) described the process of role modelling as the messages communicated to employees by the actions of leaders. Employees look to leaders for clues about appropriate behaviour and then will emulate the leader's behaviour. Sims and Brinkmann (2002) suggested that is the case with any cultural value, as employees look to the behaviour of the leaders to find out what is valued in the organisation. Schein (1985, 1997) also linked the rewards conferred by leaders as a significant signal to organisational members as to the type of behaviour that is expected in the organisation. He argues that these rewards must be consistent with the values espoused by the leaders. A further link is made by Schein (1985, 1997) with respect to how organisational leaders employ and dismiss individuals. He argued that leaders shake up corporate culture by establishing the criteria for selection and dismissal of employees. These processes send clear values to the rest of the organisation about the type of culture that is preferred by the leader. Sims and Brinkman (2002) concluded that the lack of ethical leadership puts an organisation at risk because these leaders will cause potential ethical problems when they do not take steps to establish systems to minimise unethical behaviour. They argued that ethical leadership is not just about having personal values but also the willingness to put these into action.

2.4 An Ethical Policy

There is consensus that a formal or written document needs to be established which commits the organisation to ethical behaviour. As identified above, the most common form of ethical policy is a code of ethics or a code of conduct, the development of which needs to be based on an appropriate principle. The type of code developed will however depend on the institutionalisation framework adopted. There is an important distinction to be made between the two concepts of code of ethics and code of conduct, which has been previously pointed out by Robbins (1990).

2.4.1 Codes of Ethics

A code of ethics can basically be defined as a formal organisational document that states the organisation's primary values and the ethical rules that it expects its employees to follow (Robbins 1990). These can be detailed documents that include clear statements of principles and examples of behaviours, or more general documents based on virtues or values such as mission statements. According to Kitson and Campbell (1996, p. 126) ethical codes are the statements of the norms and beliefs of an organisation and the way senior management want people to think. 'The intention is to encourage ways of thinking and patterns of attitudes that will lead towards the wanted behaviours'. Codes of ethics are guidelines that assist in decision making rather than prescriptive regulators of behaviour. As discussed codes of ethics are a prominent part of Paine's integrity approach to organisational ethics. This would tend to be more appropriate where discretion and flexibility is a necessary part of the decision making process. This is typical of organisational structures that are less reliant on prescriptive rules, regulations and policies, or are lower in levels of formalisation. Mintzberg (1981, 1985) suggests that such organisations emphasise informal mechanisms to establish acceptable behaviour and can be categorised as the professional bureaucracy form of organisation.

2.4.2 Codes of Conduct

Robbins (1990) defined a code of conduct as a set of organisational rules outlining acceptable behaviour and issues of etiquette. The technique used by many organisations details what to say and how to say it in specific circumstances, what gifts or gratuities can be accepted and what cannot, how to tender for contracts and what actions must be

completed. This clearly establishes a distinction between a code of conduct and a code of ethics. The issue of how to treat the customer, including concepts such as dignity, respect or caring, involves general ethical principles and these would be outlined in a code of ethics. A code of ethics is a formal organisational document that states the organisation's values and the ethical rules employees are expected to comply with, whereas a code of conduct is a statement of what staff can and cannot do. It is argued that codes are more appropriate to organisations where discretion is limited, where rules, policies and procedures guide decision-making, previously identified as organisations that have high levels of formalisation. This is consistent with Paine's compliance approach to organisational ethics that emphasises prescriptive approaches to developing ethical cultures. Such organisations are mechanistic in nature, thus codified systems are more appropriate. Mintzberg et al. (1998) have identified such organisations as the machine and diversified configurations.

2.4.3 Advantages and Disadvantages of Codes

Drummond and Bain (1994) and Harrison (2001) outlined the advantages and disadvantages of codes. Both suggested that codes can serve several functions including: clarify the thoughts of management as regards what constitutes ethical behaviour, provide a mechanism for communication, raise employee awareness and assist in induction and training of employees. However, like Longstaff (1997), they also argued that codes cannot be seen as a means to an end and they require internalisation through other supportive mechanisms. A code must be able to define behaviour as right or wrong without being seen as a collection of company rules. A code must be specific and prioritised. They can become lengthy, complex and prescriptive, losing practical usefulness to the organisation other than as a legal defence. Furthermore, consistent with the distinction identified by Robbins (1990), ethical codes are not codes of conduct, which are more detailed in nature and may be required where organisations desire greater control. Ferrell, Fraedrich & Ferrell (2002) maintained that a code of ethics will not solve every ethical dilemma, but should address the specific high-risk activities within the scope of daily operations specific to the organisation.

2.4.4 The Form, Content and Style of the Code

Depending on the nature of the organisation, the code's style can be regulatory, aspirational and/or educational (Connock & Johns 1995). Mintzberg's machine organisation is typically more controlling (Robbins & Barnwell 1994) and may require a regulatory style with a detailed code of conduct. Alternatively, an adhocracy or professional organisation employing empowerment strategies and greater discretion levels may prefer an aspirational style code. An important issue is the level of support an organisation may give the type of code based on an assessment of the moral development of individuals within the organisation. Individuals at higher stages of Kohlberg's moral development model --he describes as social contract and universal ethical principles-- may prefer an aspirational code. When individuals are at lower stages, responding to positive and negative reinforcement strategies, a prescriptive and regulatory code may be more appropriate (French & Granose 1995). Codes need to be meaningful and spelt out in language suitable to the firm. Buchholz (1989) highlighted problems with codes becoming too complex, indicating they would not be read and become inflexible. Alternatively, codes that are too broad are difficult to operationalise.

Connock and Johns (1995) suggested that the universality of the code is also important, particularly when an organisation is diverse both in product, location and structure. The more corporate the code, the more general it becomes and may lack organisational ownership. They recommend a base document of key elements including clear reference to the organisation's vision, values and ethical principles with individual regions and or businesses units adding elements relevant to them, in their specific contexts. They seem to suggest that organisations operate in a variety of business sectors and no one model code can be prescribed as appropriate for all industries. This is a concept consistent with Mintzberg's thesis concerning fashion or fit, suggesting organisations must design organisational structures, which include rules, policies and regulations, which fit their environment (Mintzberg 1981, 1985).

2.4.5 Responsibility for Ethics in the Organisation

Responsibility and accountability structures commonly referred to as organisational hierarchy, need to establish the overall ownership of the programme from the Chief Executive Officer down to the line managers who must take responsibility for day-to-

day actions. Buchholz (1989) and Hoffman (1995) highlighted that very few organisations make changes to their corporate structure to accommodate ethical concerns, preferring to incorporate ethics responsibility into existing departments. The Center for Business 1985 & 1990 surveys of American organisations support Buchholz's contention, finding little evidence of structural changes to accommodate ethics strategy (Hoffman 1995).

Buchholz (1989) attributed major problems with codes to the difficulty of determining who in the organisation should have the power and authority for enforcement, the difficulty of getting information about violations, and the problems of uniform and impartial enforcement. He indicated that few companies have ethics committees or ombudsmen and those that do have little input or representation from lower level employees or involvement from people outside the organisation. Ferrell and Fraedrich (1997) maintained the importance of having a manager in charge of the ethics programme to insure implementation. Many American Fortune 1000 firms have recognised this importance through the appointment of ethics officers. The obvious advantage is the dedication of an organisational structure to ethical management. Ferrell and Fraedrich (1997) also highlighted the importance of a high level manager responsible for coordinating, developing, revising and ensuring compliance with the programme. The involvement and support of high-level management is mandatory as is ownership and involvement by lower level staff. The development of an ethics committee can address this. Other methods such as ethics hotlines, whilst expensive, may be appropriate depending on the organisation's size. The advantages of an ethics committee are that it provides the opportunity to provide ongoing advice, clarification, interpretation and guidance. Mechanisms for articulating questions, criticisms or feedback enable organisations to solve problems and learn from mistakes. Furthermore, accessible, credible and supportive communication channels are essential if whistleblowers are to have less justification for resorting to public actions. Finally, a committee can be comprised of internal and external members whose independence can ensure objective advice, fairness and protection against undue managerial influence (Connock et. al. 1995).

2.4.6 Reinforcing and Monitoring the Ethical Agenda

Once a code is designed it needs to be accepted by the organisation. This needs to be achieved through a variety of strategies including effective communication, changes to organisational policies, procedures and remuneration strategies and, as various authors suggest, changes to the structure of the organisation (Buchholz 1989; Ferrell & Fraedrich 1997; Hoffman & Moore 1992; Hoffman 1995 and Preston 1996).

2.4.6.1 Communication

Communication is important in providing guidance for ethical standards and activities that provide integration between the functional areas of the business (Ferrell & Fraedrich 1994, 1997). Communication strategies designed to support the institutionalisation of the ethics system include: a public launch of the code of ethics, education programmes and reinforcement programmes, the provision of daily guidance and a ready reference to all staff outlining the elements of code. A concise, succinct, relevant and highly visible reference should be user-friendly and therefore more likely to be understood and used (Ritchie 1996).

An important process is normalising the new ethical values; that is, allowing the employees and management time to become familiar with the new values and the impact that they have on the day-to-day operations of the organisation. There needs to be strong communication about the need for, and importance of, the new ethical values. Both negative and positive ideas or arguments in relation to these new values need to be discussed as part of this normalisation. A free flow of information and ideas is required at this time. If a person cannot see the correlation between the organisational goals and the ethical values of the organisation, or believes that these will prevent the job being completed, then the communication strategy cannot be regarded as effective. It is crucial that real examples are shown to ensure that the principles are understood. If this does not occur, there is likelihood that the staff will see the ethical values as a barrier to them achieving both organisational and personal goals (Ferrell, Fraedrich & Ferrell 2002).

As part of the general blueprint for the development of ethical systems Hoffman (1995) suggested the creation of a concrete programme for communicating and educating employees about the existence of the ethical policy. They also identified that support

programmes are a crucial step in the process. Hoffman, Driscoll and Painter-Morland (2001) expanded on Hoffman's original statement of importance, emphasising that the best ethical system in terms of content is worth little if not communicated effectively, in various forms and frequently. This suggests that organisations need to devise a communications strategy that not only reaches all employees, but also does so through a variety of mechanisms. They cite examples of several large American companies and their communication strategies, highlighting BellSouth, a telecommunications company that has developed several ways of communicating its ethical standpoint. These include a letter from the company president and the chief executive officer introducing the values of the organisation, a detailed 40 page booklet containing a code of conduct as well as information on related subjects such as law, along with clarifying question and answers, a resource guide for further queries, wallet-sized cards with toll-free numbers for an ethics hotline as a reporting mechanism. The organisation also encourages supervisors to hold regular meetings discussing ethical dilemmas, have developed dramatisations of common ethical dilemmas faced by BellSouth employees as training videos and using these as discussion points during supervisors meetings. In addition, employees are also provided with information on how to raise issues anonymously and receive information clarifying ambiguous scenarios. Finally, they highlight BellSouth's ethics officer's responsibility to ensure that the organisation's values and ethics message are clearly evident in departmental meetings, gatherings of company lawyers, human resource managers and company conferences. Hoffman (1995) provides this information as a guide suggesting that organisations should look at such examples as world's best practice. However, specific information as to which strategies appear to be more important for different organisational settings is not provided.

Lagan (2000) proposed that two aspects should be considered as part of a broader information strategy: embeddedness and communication. She stressed public endorsement by the Board and Chief Executive of the organisation, followed by a demonstrable commitment by senior managers through role modelling, was critical to communicate the importance of the ethical system. These concepts are consistent with the leadership function as described earlier in this chapter. She also emphasised the strategy of integration with existing policies, procedures and employee training as part of embeddedness. Lagan identified specific communication strategies to ensure the integrity of the system including: dissemination of the code or written ethical policy to all personnel in conjunction with appropriate training; translation of the ethical code or

policy into multiple languages, particularly for overseas subsidiaries, to ensure maximum understanding, the reproduction of ethical policies in the organisation's annual reports; and its integration into the company's induction programme. However Lagan, like Hoffman, does not provide guidance as to which communication strategies should be used in which organisational context.

2.4.6.2 Communication and Technology

Trevino and Nelson (1999) provided greater clarity as to the types of communication strategies that organisations can use. They suggested that effective communication strategies need to be situational, that different organisations communicate in different ways and that an analysis of effective communication channels needs to be undertaken so as to identify the best ways to communicate the ethical system. They outlined that the actual instruments of the system, that is the value statements underpinning the code, the policy statements and role modelling from leaders provide the basic infrastructure for communication to occur. However, they emphasised that in addition to the ethics message there needs to be reinforcement through forms of print communication including recruiting and orientation manuals and policies, company newsletters and magazines. They further specified that ethics literature needed to be designed using current technologies such as websites, intranet and email systems. They argued the following as some of the types of communication materials that can reinforce the ethics message:

- Website: the company website is an important source of information for internal and external stakeholders. As such its values, mission and ethical perspective should be featured strongly including the code of conduct or code of ethics.
- Recruiting brochures: again the inclusion of company values or mission statements and codes of conduct are highlighted.
- Orientation materials: in addition to the values and codes, examples of typical ethical dilemmas and advice for handling, including reporting mechanisms, should be a feature of such documents.

- Newsletters and magazines: these can be effective in promoting stories about corporate heroes, employees who illustrate or live the values of the company. Such examples had previously been identified as an important part of cultural strategies and the creation of myths and rituals.

Trevino and Nelson (1995, 1999) concluded that an effective communication policy is designed after analysing the audience and their specific needs. They suggest basic guidelines that should be followed in the design of any communication strategy.

- (1) Communicate relevant rules to the people who need them - and not all of the ethical policies and guidelines necessarily apply to all employees, for example specific financial ethical policies regarding preparation of the financial data is not necessarily relevant to employees handling hazardous materials.
- (2) Prioritise policy: some policy statements are clearly more important than others: these need to be identified and highlighted for employees
- (3) Make it understandable: elimination of legalistic terminology allows the majority of employees without formal legal training to understand the intention of the policy. Trevino et al. (1999) suggested that whilst most people recognise the term conflict of interest, few actually understand what it means. The use of plain language and relevant examples to illustrate ethics were seen an important part of an effective communication strategy.
- (4) Make policy come alive: lastly they suggested that communication only occurs when a message has been received and understood.

Ferrell, Fraedrich & Ferrell (2002) emphasised the points made above, citing management expert Peter Drucker, who suggested that employees need to be connected by a common vision and set of values. However, this will not ensure ethical outcomes, rather, managers need to motivate employees and this cannot occur without proper communication. They identified that communication by top executives is an important strategy in maintaining the ethical standards of an organisation and they must ensure that the ethical climate is maintained by monitoring ethical standards and activities that integrate the functional areas of the organisation. Like Trevino and Nelson (1999), Ferrell, Fraedrich and Ferrell (2002, p. 190) believed that a company's communication strategies should reflect the unique characteristics of the organisation; its culture,

values, and management style and employee base. However, despite the importance of this recommendation, like many other authors, they do not specify how such variables should impact upon the design of communication strategies.

Connock and Johns (1995) discussed the communication process as part of a broader foundation of managing change, in particular the transition between the old values of an organisation and the new ethical ones. They argued that the introduction of an ethical system, like any other change management programme, must be managed and that publishing ethical values and an associated code, like the formation of any policy is relatively easy. They warn managers that making pronouncements about the new policy or set of values alone, generates a virtual certainty that after a short period people will then carry on as before. Transition has been identified as part of change and organisational development process requiring specific strategies that introduce employees to the benefits of a new system so that a resistance is minimised. (Bridges 1991; Block 1998) This is also consistent with Lewin's approach to change, proposing the metaphor 'unfreezing' to describe the process of preparing people for forthcoming change through strategies, including communicating the benefits of the new policies or structure (McKenna 1999). Literature pertaining to organisational development, specifically that relating to the 'psychology of loss' supports the contention that without appropriate reinforcement and maintenance strategies, employees faced with new ways of doing things will tend to revert back to those policies and procedures they know (Egan 1988). Petrick and Quinn (1997), whilst not offering specific information on organisation-wide communication strategies, emphasised communication styles and the managers' responsibility to be aware of the impact of their behaviour, an important role in ensuring integrity.

2.4.6.3 Training and Education

Connock & Johns (1995) suggested that the implementation of any ethical system presupposes congruence between the standards enshrined within the values of an organisation and the actual behaviour of the employees. As they point out, this can only be assured when employees are educated about the ethical values, the required actions, the implications concerning punishment and rewards based on that behaviour. Training is identified by Driscoll and Hoffman (1999); Ferrel, Fraedrich and Ferrell (2000); Hubbard (2002); Preston (1994); Ritchie (1996) and Trevino and Nelson (1999) as an

ongoing and critical strategy to reinforce the ethical system. Young (1999) identified training in ethics as a proactive business strategy. He cites Dave Cole, vice-president of HR at UPS Canada, who says that ethics training is the key to making the ethics policy at UPS effective. According to Cole, training emphasises and demonstrates the senior management commitment to employees. In addition, recurrent training sessions emphasises the importance of proper ethical conduct. Hoffman (1995) identified that training is an important element in the blueprint of any ethics system. They suggest that ethics seminars are critical as they allow employee dialogue about the importance of business ethics and specific ethical issues they face within the organisation.

Vallance (1995) stated the aim of training was to give employees the requisite skills and experience so as to do the work that organisation asks them to do. She suggested that for many organisations the important point of differentiation from competitors was the quality of staff that in turn depended heavily on the quality of their training. Without the kind of common understanding that can be achieved through training, compliance with the ethical values developed by the organisation, detailed in either a code of ethics or a code of conduct, 'is virtually impossible' (Connock & Johns 1995, p. 135). Preston (1994) and Trevino and Nelson (1999) concur, suggesting the need for relevant and contemporary training within organisations as necessary to support ethical systems. In addition to an effective communication strategy and adequate dissemination of ethical materials, organisations need to train their employees directly about the meaning of the ethical system and its application. They identified that effective training programmes are characterised as on going, and that the training audience should include everyone from new recruits to high-level managers. Importantly, they argue that different categories of employees may require different forms of training. For example, an assembly line worker might require an hour of training in the use and application of a code, in conjunction with regular refresher sessions, whereas senior managers may require several days of training due to the diversity and complexity of issues that they face.

Francis (2000) stated that in order to prevent breaches of ethical codes or principles, training programmes establishing required behaviour needed to be provided. Like authors Vallance, Trevino and Nelson, Preston, and Connock and Johns, Francis also clearly stated that the presence of a code or an ethics committee and reporting system, whilst admirable, was an incomplete system. Organisational training provides not only

sensitisation to ethical issues within the organisation but provides practical ways of understanding and resolving ethical dilemmas. Training is one of the most efficient methods of inculcating ethical behaviour. Child (1986) and Daft (2001) also recognise training as a cultural tool. Francis (2000) suggests that ethical training needs to differ according to the different nature of organisations. This is consistent with the notion of organisational fit as described by Mintzberg (1985) and with training and development literature that advocates the use of training needs analysis as a critical step in understanding the different training and developmental needs of the organisation, individuals and groups (Burns 1995; Laird 1985 and Rothwell & Kazanas 1990).

Verschoor (2000a pp. 22-24) identified a survey by the Ethics Research Center in Washington DC, showing that employee perceptions and outcomes regarding organisational ethics are more positive when: an ethics programme is in place, employees see ethical values such as honesty, integrity and loyalty applied frequently in the workplace, and when organisational leaders model ethical behaviour. The study found that employees attached great importance to the ethical climate. This was identified as one of the major reasons why they continue to work for the organisation. The study also found that modelling of ethical behaviour by organisational leaders, supervisors and co-workers increases favourable ethical outcomes (Verschoor 2000a).

Connock and Johns (1995) suggested ethical values and codes require intrinsic accountability and that individuals must be reasonably comfortable that their action conforms to the behaviour expectation outlined by the organisation. Without the common understanding achieved through training, compliance with ethical values is impossible. Francis (1994, 2000) identified the importance of training as a means of establishing ethical behaviour. He argues that it is essential that effective training programmes incorporate the following objectives:

- promote and support the organisation's values and standards;
- make managers more aware of the ethical dimensions of their business decisions and conduct;
- educate staff in the organisation's ethical policies;
- strengthen the staff's ability to apply the organisation's ethics; and
- provide a forum for managers to identify ethical issues and areas of vulnerability

Verschoor (2000b) identified that successful ethics training was most likely to occur in organisations that had well developed ethical systems that included clear values statements, codes of conduct, behavioural guidelines, consistent disciplinary policies and support at a board or senior management level. Verschoor (2000a) suggested that ethics training establishes four significant outcomes for organisations. Firstly, it affirms that ethical dilemmas occur in the workplace --this is the norm and part of the complex nature of an employee's environment. Secondly, it emphasises to employees they need to work through difficult issues with colleagues, supervisors, and managers. In other words, it emphasises that working through ethical dilemmas is an expected function. Thirdly, by increasing employees' knowledge and skills concerning ethics they are able to examine dilemmas in a more substantial and informed way that results in the final outcome, the application of ethical decision-making frameworks that allow employees to explain and justify their decisions, thus increasing overall organisational effectiveness.

Hubbard (2002) argued that many attempts to introduce effective ethical programmes fail for a number of reasons. A first error is that organisations fail to distinguish between orientation and training. Many include an overview of ethical policies during an orientation programme for new employees, often requiring them to sign the document verifying their understanding or sighting of the document. However, he argued this is not the same creating an understanding of its meaning and application. This requires both conceptual and behavioural learning that is most often achieved through formal training ethics training.

Hubbard (2002) identified three criteria that contribute to effective ethics training. Firstly, he suggests that there must be no inconsistency between the values and content of the ethics training and the behaviour of senior managers. Secondly, ethics needs to be an ongoing part of training otherwise it will be seen as a one-off issue or time related concept. Driscoll and Hoffman (1999); Francis (2000) and Hoffman (1995) also argued in favour of on-going ethics training and without such a commitment employees may perceive ethics as a relativist issue, applying different moral judgements according to when training occurs and when it does not. Finally, Hubbard (2002) emphasised that, as with any effective training programme, the courses need to be

reviewed and updated on a regular basis. Once updated all employees need to be retrained so that more effective behaviour is encouraged.

Francis (2000) goes further arguing that training strategy requirements include:

- development of an appropriate budget,
- start at a senior level to demonstrate management commitment,
- is grounded in reality thus emphasising relevance,
- recognises the importance of emotional commitment, not purely cognitive development but also the potential blockages that may cause value conflict,
- communicates to the intelligence of delegates and is integrated with organisational culture to avoid prolonged, sermonising and patronising delivery.
- training must be delivered in a professional and serious manner and must be mandatory.

Driscoll and Hoffman (1999) and Hoffman (1995) maintained that as with any training and educational programme, training requires sufficient time for presentation of issues, cases, discussion debate and follow up. Like Francis (2000) they identified key objectives for corporate ethics training specifically, to clarify the organisation's ethical values and enhance ethical awareness of the corporation's employees. Similarly to Hoffman (1995) and Vallance (1996), suggested that successful ethics training programmes should include all levels of the organisation, not just targeted groups such as senior or middle managers. They go further, suggesting that from time to time different levels and groups should be mixed together so as to encourage better understanding and communication amongst organisational employees.

Ferrell, Fraedrich and Ferrell (2000); Ritchie (1996) and Trevino and Nelson (1995) and reinforced these observations concerning ethics training suggesting that senior executives of an organisation must communicate with managers at the operational level and enforce overall ethical standards and this can be achieved in part through ethics training. They argued that successful ethics training gives employees the means to address and resolve issues and ambiguous situations. They outlined the key to successful ethics training includes: helping employees identify the ethical dimensions of a business decision, giving them the means to address the ethical issue, helping them understand the ambiguity inherent in such situations, making them aware of their

actions in terms of the defined and desired company outcomes and to eliminate the belief that unethical behaviour is ever justified by stressing the following:

- Stretching the ethical boundaries results in unethical behaviour
- Whether discovered or not an unethical action is still unethical
- Unethical behaviour is never in the interests of the company
- The organisation is held responsible for the misconduct of its members.

Again, like authors identified above, Farrell et al. (2001) suggested that training initiatives should reflect the unique character of the organisation, its size, culture, and values used to manage and guide employee behaviours.

2.4.6.4 Who Should Train?

Little specific information was identified in the literature concerning who should train or the level of ethical expertise necessary to be an effective ethics trainer in organisations. Preston (1994) is one of the few who does address the issue, suggesting that most qualified training officers should be able to successfully and professionally train employees in ethics, in particular through the use of the facilitation of discussion skills. He does clarify the statement suggesting that an understanding of ethical theory is important background knowledge for any trainer. Preston goes further by identifying that the appropriate educational philosophy to be used in ethics training should be based on adult learning techniques or experiential learning, as this allows learner to reflect and consolidate existing experiences rather than relying on the trainer to provide expert knowledge. This is consistent with much of the training and development literature that suggests that qualified trainers can train in a variety of different disciplines with limited knowledge of subject matter, when appropriate planning and research is conducted with recognised experts (Rothwell & Kazanas 1990).

2.4.6.5 Training Design

Consistent with the points made above, Thorne LeClair and Ferrell (2000) suggested that effective ethics training needs to be based on sound educational philosophy and training design. As discussed earlier in this chapter, the distinction between training for immediate job application versus longer term education and development needs to be

taken into account. Similarly to Preston (1994), they emphasised the importance of using adult learning methodology that allows experiential learning rather than solely relying on behavioural methodologies that simply convey information rather than understanding. Citing the work of Knowles and of Shandler, they emphasise that as adults, organisational employees need to be involved in the training design. According to Kirrane (1990) and Thorne LeClair and Ferrell (2000), training and instruction in ethics raises individual awareness of the ethical content of a decision and impact on the organisation and its culture. The goals of ethical training should therefore be linked to organisational needs, risk areas and desired outcomes.

Thorne LeClair and Ferrell (2000) specified a variety of training methodologies that can be used in the organisational context. The behavioural methods of lectures and videotapes were identified as the most popular instruction method for employee training; however, they also identified that reliance on this format deprives individuals of a more enriched and meaningful learning experience. Games and case studies were also suggested as educational tools that can be used to raise or highlight ethical issues. The significant advantage of case studies, games and other experiential methods is that it often removes some of the fear or uncomfortableness associated with such topics. This is consistent with Burns (1996), Kroehnert (1990) and Rothwell and Kazanas (1990) who support such training methods as critical in the design of safe experiential learning environments. Thorne LeClair and Ferrell (2000) also identified simulation activities as potentially significant in training design, however, they suggested that they are not commonly used in professional ethics training due to the substantive research, design and time commitment required in the creation and facilitation of simulations. They concluded, as with any organisational training, ethics training outcomes need to be linked to organisational success. Kirkpatrick (1998) identified four levels of evaluation that are necessary so as to document the relationship between training and outcome:

- (1) General employee satisfaction with the actual training. Employees are more likely to want to learn if the experience is enjoyable
- (2) The extent to which employees' skills and knowledge improve as a result of attending training. This suggests that knowledge needs to be measured some time after the training has concluded to establish knowledge retention.
- (3) The change in behaviour that has occurred as a result of the training. Key performance indicators in sensitive areas can be used as an indicator that

specific behaviour has been changed, for example a decline in harassment or customer complaints.

- (4) Changes in business performance that has occurred as a result of the training. Again key performance indicators can be used to determine whether the training has improved these specific areas.

Thorne LeClair and Ferrell (2000) suggested that positive findings associated with general training have also been found in organisations with an emphasis on ethics. They cite the research of Loe (1996) and Maignan (1997) who identified that organisations with a strong ethical climate are positively associated with a greater commitment to quality, customer loyalty, employee commitment and profitability.

2.4.6.6 Training Sources

According to Laird (1985) the organisation's training needs can be sourced through the use of either internal trainers or external experts and consultants. Internal trainers can sometimes lack credibility with employees, although the advantages include their knowledge and understanding of staff, structures and systems (Laird 1985). The use of managers can be powerful and can reinforce the code, particularly when their performance is connected to it. However, consideration must be given to that fact that not all managers make good trainers. In addition, not all managers may believe in the ethics programme. The advantage of external trainers is their professionalism and experience of a well-rehearsed programme. Credibility is associated with these trainers and they are in a better position to speak objectively. As discussed by Preston (1994) and discussed in section 2.4.6.4 above, the issue of expertise in the field of ethics is seen as an important aspect in determining an appropriate educational methodology and delivery method. Ideally both training forms should be used (Laird 1985).

2.4.6.7 The Training Audience

A successful ethics-training programme should include all levels of the corporation, not just upper management (Hoffman & Moore 1990). Ethics training normally begins with orientation sessions and open discussion of the firm's code of ethics. Employees should be encouraged to participate at a high level in these sessions as well as other training that follows. Ethics training should provide employees with an experiential awareness

of the types of ethical dilemmas they may face and of what type of actions to take in these dilemmas (Drummond & Bain 1994).

Hoffman and Moore (1990) suggested that the practicality of training all employees can often be difficult in very large organisations. To this end, ethics cannot be integrated effectively into an organisation unless line managers accept responsibility for the moral dimension of their decisions as well as economic features. Ethics, understood as the principles and process of reasoning about moral responsibility, must be taught in ways that link clearly to institutional roles, to the particularities of business decisions and in ways that encourage a sense of confidence and competence on the part of the individual.

The design of content for such training must also be based on the nature of the organisation. Clearly ethical systems that are based on formal rules and codes of conduct leave little room for discretion. Training must therefore be based around how to use the code in order to arrive at a decision. The objective of such training must be to develop technical proficiency in using the ethical policies. This is consistent with training and development literature, particularly the aspects related to conducting training needs analysis. Burns (1995); Laird (1985) and Rothwell and Kazanas (1990) concur that appropriate analysis of the job function and organisational context is necessary to tailor training to the specific needs of the target audience.

Organisations that use aspirational systems based on codes of ethics will therefore need to adopt a similar approach, identifying via training needs analysis the specific requirements of ethics applications. As previously identified, discretion in such organisations is much greater and individuals must be able to apply a broad range of concepts in diverse situations. Thus training needs to incorporate not only an understanding of the ethical system as a decision making tool, but also the principles that underpin it. This suggests that training in understanding ethics is a necessary prerequisite. This type of organisation is consistent with the Professional Organisation as described by Mintzberg et al. (1998) where the operating core employees have greater discretion in decision-making than their counterparts in a mechanistic structure; due to their knowledge or skills having been standardised through formal or professional training. Such groups require an understanding of ethical principles so as to be consistent with their prior professional training.

2.4.7 Linking Ethical Issues to Performance Objectives

Ferrell Fraedrich & Ferrell (2001); Francis (1994, 2000); Hoffman (1995); Lagan (2000) and Ritchie (1996) identified that employees need to be motivated to behave in a manner consistent with the ethical objectives of the organisation. This can occur at a corporate level by linking ethical management to key performance indicators and at lower levels through employee performance appraisal. In particular, managers may have aspects of implementation linked to annual performance plans.

Ethical standards should be linked to recruitment and selection and be included in the induction programmes. This can include all staff signing for the code of ethics and updates. Organisations concerned about the ethical behaviour of their employees may find it easier to hire individuals who are already experienced in the use of ethical codes (Francis 1994). Since individuals are likely to face ethical issues most of their lives, there is little doubt that potential employees have significant ethical decision histories prior to joining an organisation. Thus the first line of defence against unethical behaviour in the organisation is the employment process. Several methods are available to the organisation for ethical screening. They vary widely in terms of costs and benefits. Background investigations that include checking resume information, calling references and requiring transcripts can be a valuable, cost-effective tool in screening employees. Other methods include the requirement that potential employees read and sign a statement obligating them to abide by the company's values and ethical standards as part of the application process; and inclusion of the company's code of ethics in all its recruiting material (Drummond & Bain 1994).

2.4.7.1 Altering the Organisational Structure

No co-operative effort to influence ethical behaviour from within an organisation will succeed unless it is supported by the authority structure. Drummond and Bain (1994); Francis (1994, 2000); Hoffman (1995); Lagan (2000 and Weiss (1994)) recognised that a variety of structural mechanisms must be put in place to advise management about ethics, monitor ethical behaviour among employees, communicate ethical policies and serve as ombudsmen for reporting of ethical violations. Structural changes create and define the appropriate ethical role and make-up of the governance system --especially

the board of directors, who are ultimately responsible for the ethical integrity of the corporation (Hoffman & Moore 1990).

Mintzberg (1981, 1985) states the strategic apex, or executive levels of organisations, are responsible for providing the strategic direction of the organisation. Petrick and Quinn (1997) identified that part of this responsibility is the establishment of the framework in which an ethical culture can develop. The responsibility of the executive level to provide effective leadership and a strategic direction was discussed in section 2.3.2.2 of this chapter. Hoffman & Moore (1990) suggested that, in particular, company boards of directors need to be more informed, more representative and more independent from the influence of corporate officers. Only then will they effectively discharge one of their primary responsibilities--the establishment of corporate ethical culture (Hoffman & Moore 1990). Bosch (1996) concurred, describing the responsibility of company directors as not only ensuring their own ethical standards, but also ensuring the development of appropriate standards throughout the organisation.

2.4.7.2 Ethics Committee

Connock and Johns (1995); Ferrell, Fraedrich and Ferrell (2002); Francis (2000); Hoffman (1995) and Ritchie (1996), suggested that a senior committee be established at board level or senior executive management level. There is general agreement amongst these authors that an ethics system will not work effectively without appropriate resources and coordination (McCoy 1985). Among the functions of such a committee would be to monitor the ethical system. Since it is impossible to formulate an ethics system that remains static, these advisers could assist in the continual development of the system and the written policies such as ethics and conduct codes (Francis 1994). This is consistent with the need to have sufficient authority to ensure ethical systems are developed and implemented, and to provide role modelling for the organisation--identified as important earlier in this chapter.

2.4.7.3 Ethics Ombudsman/ Officer

A recognised support mechanism for those who find themselves in ethical dilemmas is the availability of an ethical ombudsman. The concept of an ombudsman might also be advantageously seen as occupying a counselling and advisory role, provided that such a

role does not compromise independence. Such an independent, confidential position is suitable for an older, respected employee or perhaps an outside consultant. This role complements the use of the ethical committee (Francis 1994, 2000). Izraeli and BarNir (1998) identified that the emergence of an ethics officer is an important internal mechanism in the promotion of ethics. They suggested that the formal appointment of someone within the organisation to be in charge of the ethical system requires definition of the function. They stressed that the officer should provide important, unbiased advice, to assist management make and implement decisions. They argue that it is imperative that the ethics officer be autonomous and independent as this minimises pressure when dealing with sensitive issues. Izraeli and BarNir (1998) argued that the ethics officer's position in the hierarchy must be high enough to ensure access to management. This creates immediate power, authority and respect for management's commitment to ethical conduct. They also proposed that knowledge of ethics and social responsibility is crucial for any individual assuming this position. While professionals in many fields discuss professional ethics and ethical dilemmas, they do not ordinarily deal with issues such as ethics systems, ethics training, communication strategies, in addition to broader questions of social responsibility unless it bears directly upon their profession. Thus knowledge of ethics, Izraeli and BarNir (1998) argue, is critical for fulfilling the role of an ethics officer. This is consistent with the views of Weiss (1994); Hoffman (1995) and Lagan (2000) who all identified the need for an official position within the organisation with responsibility to oversee the ethics system. The creation of such a position, and perhaps a section responsible for ethics, increases both vertical and horizontal differentiation of organisational structure. Thus such a function can be directly linked to the design of organisations. Given Mintzberg's (1981) hypothesis of organisational fit, it can be argued that different organisational structures will require different approaches to the creation of sections or positions with responsibility for the ethical system.

2.4.7.4 Reinforcement of Ethical Behaviour and Compliance

Recognition of the importance of individual integrity and its accompanying responsibilities must be backed up by strong corporate support. The individual must believe that the corporation will stand behind individual decisions made in keeping with, or out of respect for, the ethics code (Hoffman & Moore. 1990). The organisation must implement and support ethical reinforcement systems. Employees should be

rewarded for behaving ethically and punished for behaving unethically. This involves developing a clear understanding of how ethical behaviour is defined by the organisation, developing a system to measure and report ethical behaviour and developing a performance and appraisal system that includes ethical behaviour (Drummond & Bain 1994). The ethical system will lack effectiveness and meaning if no appropriately representative committee or board addresses employee concerns about the code or potential violations (Hoffman & Moore 1990).

French and Granose (1995) recommended reward and punishment contingent with performance to encourage and discourage appropriate and inappropriate behaviour. Ferrell and Fraedrich (1997) suggested that when employees comply with organisation standards, their efforts be acknowledged and rewarded through mechanisms such as public recognition, bonuses, raises and other forms of reward. Conversely they also advocated reprimands, transfers, docked pay, suspension or even retrenchment for non-compliance. James (2000) argued that the structure of monetary and non-monetary rewards along with performance evaluation and control processes are the formal structural variables which organisations can use to reinforce ethical systems.

2.5 Examination and Review: The Ethics or Social Audit

The final stage of any organisational change programme and a consistent theme amongst the approaches is the need for constant review and monitoring of the implementation programme. Hoffman (1995) suggested that the degree of effectiveness of an ethics programme must be constantly evaluated and updated. The most common approaches recommended are those of the social or ethics audit and disclosure of the findings. Schaefer and Zaller (1999) identified that many organisations have introduced ethical systems based around codes or ethical policies yet few establish evaluation systems to ascertain whether these systems are proving to be effective. They suggested that what is needed is a new kind of ethics audit, broad-based and allowing the organisation to consistently focus and refocus on whether it embodies the values it professes.

Lagan (2000) suggested that an ethics audit is a procedure that occurs prior to the development of the ethical system. She identifies that any ethics audit should generally seek to match employee behaviour with the organisation's ethical standards. Francis

(2000) described corporate climate audits as a means by which an organisation can evaluate its ethical performance. He proposed that the more obvious measures - staff turnover, absenteeism, customer complaints, product quality, and decreases in orders or referrals - were general indicators of organisational performance. He stated the purpose of a corporate climate audit is to do the equivalent of a medical check-up, examining both organisational processes and individual roles within the organisation. However, he argued that any attempt to be precise about the nature of a corporate climate audit is fraught with difficulty as the climate itself can only be recognised when it is being experienced; the nearest one can come to explaining or defining corporate climate are the values, ideals and assumptions (VIA) that permeate the organisation. He suggested these are implicitly understood within the frame of reference for operating. Petrick and Quinn (1997) parallel the concept of an ethics audit with that of managerial control. They suggested that organisations needed to establish a sequence of responsible control measures that provide a generic model for control of sub-processes and systems associated with integrity or ethics systems.

Reamer (2000) identified that many types of audits are conducted in organisations and that both private companies and non-profit organisations routinely conduct such evaluations for accounting, quality control and assurance purposes. Audits typically analyse essential aspects of an organisation, particularly financial recording, production processes and quality assurance programmes. According to Reamer (2000) this concept can be extended to the area of professionalism and ethics. He specifically applied the concept to social work however the principles that he outlines could easily be applied to general organisational settings. Reamer (2000) identified four risk categories that can be used to classify different aspects organisational work. The first is no risk, current practices that are acceptable and do not require any modification. The second is minimal risk or practices that are deemed adequate for which minor modifications would enhance organisational performance. Thirdly he described moderate or current practices which are problematic and may expose the organisation to some risk, however, modifications are necessary in order to minimise exposure, and lastly, high risk: those practices which are identified as seriously flawed and require significant modifications in order to minimise potential harm. Reamer's (2000) approach can be seen to be more substantial than those of Hoffman, Lagan, Petrick and Quinn. He focuses directly on the elaboration of risk, but does not specify how the audit should be conducted or which techniques should be used. Whilst his approach does suggest a variety of areas that can

be addressed, without a clear indication of how these areas can be measured and specifically which tools should be used, the ethics audit is of little value.

Schaefer and Zaller (1999) stated that ethics audits need to go beyond the individually based approaches used in many organisations. Audits need to include the dimension of organisation, the social system and the milieu in which the organisation operates. They suggested that the audit must encourage self-reflection and should raise self-consciousness of unethical behaviour for all aspects of the organisation. This would heighten ethical perceptions and prevent unethical practices. Lastly, they argued that any ethics audit needs to be done regularly. They seem to be proposing that organisations cannot examine internal processes alone, but must also examine their role in society.

2.5.1 Types of Audits

Like Lagan (2000), Harrison (2001) argued that the starting point for any organisation wanting to establish an ethical system is to conduct an ethics audit. He also suggests that the organisations can opt for a more proactive approach that includes undertaking ethics audits along with traditional financial audits and the increasingly common environmental auditing approach, which is better known as triple bottom line. He distinguished three different types of ethical audits: the compliance audit, the ethical culture audit and the ethical systems audit.

2.5.1.1 Compliance Audits

The ethical compliance audit, described as the simplest form of evaluation, examines how compliant an organisation is both with regulatory and self-regulatory regimes. This includes an examination of the company's position in relation to any applicable industry codes of practice. The ethical compliance audit serves to alert an organisation to its responsibilities and obligations under such specific codes. In this way the compliance audit can be seen as an external auditing process (Harrison 2001).

Lowery (1997) identified that the ethics audit needs to be conducted in a systematic way in order for organisations to comply with relevant legal requirements. Emphasising the need for compliance, he specifically refers to the 1991 Federal Sentencing Guidelines enacted in the United States (see appendix 2 for details) which establish penalties for

organisations convicted of violations, and in particular the level of fines if management failed to have appropriate ethical programmes in place. He suggests the extension of this must also be whether the organisation reviews its policies to ensure that they are working effectively. The relationship between the US Federal Sentencing Guidelines, and the compliance approach to ethics systems was established earlier in this chapter. Lowery (1997) identified corporate ethics audits as a review to ensure compliance and protection under the US federal sentencing guidelines. However, he argued that such audits needed to go further than a simple legal review to ensure that corporate codes are available, that ethics training is provided and an ethics officer is responsible for ensuring the integrity of the ethical system. He identified corporate ethics audits as involving conducting risk assessments or risk liability, in particular of organisational and business practices. Functional areas and activities most sensitive to ethics abuses would be identified as specific targets of the audit. This is similar to Ritchie's (1996) description of ethics audits and Vallance's (1995) approach that advocate the need to identify the ethically sensitive areas of the organisation which can act as a form of ethical barometer.

2.5.1.2 Culture Audits

The second ethical audit identified by Harrison (2001) is an ethical culture audit that examines the attitudes of managers and employees to ethical issues and asks the question: does the organisation have an ethical orientation? Harrison suggested that the ethical culture audit could also be seen as a form of integrity testing. He proposes that the outcome of such an audit may be the introduction of behavioural codes to change the culture of the organisation. He also identified alternatives to culture change through behavioural codes, such as the recruitment of new employees consistent with the desired culture and the dismissal of those identified as behaving inconsistently with the desired culture.

Trevino and Nelson (1999) described an approach to ethics audits similar to Harrison in that an objective is the analysis of both the formal and informal organisation, which Trevino and Nelson described as organisational culture. They suggest that any attempts to develop or change organisational ethics should begin with a diagnosis of ethical climate and this requires time-consuming techniques such as the auditing of decision-making systems, policies, procedures, holding interviews with employees at all levels and undertaking an analysis of informal organisational aspects such as culture. This is

similar to Lagan's view of the ethics audit as a diagnostic tool that informs ethics system design. They advocated that the audit should include an analysis of both formal and informal organisational systems through the use of questionnaires, interviews, observations at meetings, analysis of training, an analysis of organisational documents. Trevino and Nelson (1999) identified that informal systems are not necessarily evident in policies and procedures thus requiring a different form of analysis. They proposed a discursive approach, using interviews and facilitated focus groups to consider the organisation's stories, rituals and language as well as heroes and the extent of role modelling that forms the basis of its culture.

Longstaff (1996) emphasised the importance of building-in a review process to ensure codes do not become stale. He also argues that the creation and maintenance of an effective ethical culture requires expenditure of significant financial and human resources. As he suggested, ethics costs money and many organisations are reluctant to commit the level of resources necessary to ensure an ethical system, preferring the cheap option of simply implementing an ethics code. Perhaps the most significant issues identified by Longstaff are the pitfalls experienced by organisations in the process of designing codes. They can be avoided by conducting values audits, he argued, and such audits identify three critical factors that can guide design and implementation:

- what people in the organisation think the most important values are
- what they believe to be the ideal level or presence of each of these values and
- what they believe the actual level or presence of these values are.

Longstaff (1994) argued that audits begin to identify what he terms the values gap. Without such investigation the organisation will not necessarily be in a position to design an effective ethical system that meets the needs of organisational members. The development of the review process will help ensure that organisational documents remain fresh and relevant, however he does not elaborate on the nature of the review process, who should conduct it, or what its focus should be.

2.5.1.3 Ethical Systems Audits

The third type of audit focuses on the formal ethical system adopted by the organisation. Harrison (2001) suggested that this audit is, in effect, the most comprehensive as it moves into the areas of organisational design and structure. Its purpose is to examine two issues: firstly, the various systems within organisation such as human resource

management, communications systems via information technology, supply chain management, marketing and strategies and advertising, and whether these reflect and contribute to the organisation's ethical objectives; secondly, he suggests that the ethical systems audit helps identify key areas of non-compliance and assists the organisation to develop new systems consistent with the ethical objectives of the organisation.

Vallance (1995) also argued that organisational systems need to be evaluated and monitored and that without such strategies effective control cannot be maintained. She parallels the ethics audits to financial audits that ensure organisational financial and accounting systems provide accurate and up-to-date information on financial position and secondly, that published statements are a true and fair reflection of financial position. Vallance (1995) argued that a similar approach needs to be taken in analysing an ethics system. She suggested that it is necessary to establish the difference, or the contribution, that business ethics makes to an organisation. If its values are not being carried through to action, it is unlikely to achieve its stated purpose and therefore needs to be aware of where the problems lie. She maintained that an ethics audit would contribute three things to the overall business evaluation. Firstly it will make the organisation clarify its ethical priorities, secondly it will make the organisation aware of its ethical successes and failures, and thirdly it will allow continuous feedback for improvement. Vallance (1995) identified research conducted by Carmichael and Drummond and Cutterbuck and Snow in the United Kingdom that analysed the ways in which organisations evaluated their ethical performance. Vallance (1995) identified three areas in which the audit would normally operate:

- Analysis of policy: A comprehensive review of organisational documents that outline ethical standards. Importantly this part of the audit assesses whether individuals within the organisation know that the policy exists and what it says. She also suggests that benchmarking against other organisations should occur reviewing the policy documents in the light of current thinking and practice.
- Analysis of systems and standards: Vallance (1995) identified a review of organisational systems and the stated ethical standards. Importantly an analysis of whether the standards are clear, easily understandable and measurable is seen as critical.

- Analysis of reward systems: rewarding and analysing performance is seen as the third level of analysis. Vallance suggested analysing the results policy and systems against previous years in order to determine whether the organisation has achieved or exceeded its objectives in the field of ethics.

These concepts essentially parallel a quality management process, similar to those advocated by Petrick and Quinn (1997). Unfortunately, as can be seen from the above description, Vallance (1995) does not specify the actual techniques or approaches that should be used when reviewing these three areas.

2.5.2 The Focus and Methodology of the Audit

Reamer (2000) identified a number of issues required as part of any ethics audit that seeks to evaluate ethical risks faced by an organisation. He outlined that current available data and professional standards suggest there are a number of key risk areas that should be addressed in an effort to protect organisational clients and prevent ethics complaints or ethics related lawsuits. Topics specifically relevant to an organisational ethics audit include: client or customer right's, service delivery, conflict of interest, supervision, or training, consultation, fraud, termination, and professional practice. Reamer (2000) also suggested that an examination of ethical decision-making should be part of any ethics audit. This would be based around an employees' familiarity with ethical decision making models or codes as a means of resolving of ethical dilemma.

According to Ritchie (1996) the day-to-day behaviour of managers and staff is fundamental to ethical leadership. A social or ethics audit should be conducted to identify these daily ethical issues, employing questionnaires aimed at ethical decision-making and the ethical climate. The ethics or social audit needs to examine a number of sensitive areas - those that may be prone to unethical behaviour – among those she suggested: equal employment opportunity, community programmes, occupational health and safety programmes and environmental record.

Francis (2000) suggested examining areas such as staff morale, job satisfaction, occupational health and safety, staff selection, promotion and compliance with legislation. He further proposes that the audit should also deal with the relationships the organisation has with external stakeholders such as suppliers, and customers. He also argued that to increase its validity, an independent or external consultant should carry

out the audit. This is consistent with strategies described by Gray (1996); Lagan (2000); Lowrey (1996); Petrick and Quinn (1996); Ritchie (1996); Schaefer and Zaller (1999) and Vallance (1995).

According to Lowery (1997) the risks likely to be considered in an ethics audit revolve around the organisation's potential loss of business, legal implications, injury or loss to employees or customers and the disclosure of sensitive data. A wide variety of ethically-sensitive functions may exist depending on the organisation; however, he argued that several are universally important in any ethics audit:

- Controls associated with financial records: these would cover reviewing employees involved with purchasing decisions or opportunities for unethical practice if proper controls were not in place.
- Compliance with regulations with regards to public safety, environmental regulations and occupational health and safety.
- Sales and marketing practices, financial reporting and compliance with any specific legislation such as sentencing guidelines, or foreign corrupt practices legislation
- The systems established to maintain and record sensitive market information
- Human Resource practices, in particular compliance with employment law such as affirmative action and equal employment opportunity legislation.

Gray (1996) provided an alternative approach suggesting that an ethics audit should be carried out annually and that it would help bring the organisation's core values and ethics into focus. It can also provide an opportunity to analyse how the organisation's daily performance complies with its stated ethical policy. At the heart of Gray's approach is the concept of discourse. She advocated scheduling retreats, or a series of sessions of at least 90 minutes in length, for both the senior executives, members of the board and general staff. She suggested that participants be provided with ethical policies such as codes beforehand, so that they can form individual impressions about effectiveness prior to such meetings. She specifically recommended not separating the

different executive and non-executive personnel levels, rather she advocates the integration of organisational members since a broad objective is for organisations to function as a team.

During the sessions discussion should be focused on the organisation's ability to communicate the ethical policy. The objective should be to find out what employees and external constituencies think about the policy and how they believe it could be enhanced. Gray (1996) believed that a necessary process is to identify situations where the organisation has strayed from its values and invite feedback on how the policy could be strengthened. Importantly she suggests using hypothetical rather than actual scenarios which may be identified with specific personalities, to reduce any sensitivity amongst the audience. She argued that a discourse approach to the ethics audit encourages open discussion of the organisation's values and codes among all levels of the organisation. However, as with the other strategies identified in this chapter, there are no details as to how this process actually contributes to policy re-evaluation or who should be responsible for the facilitation of audit discussions. Allen (1995) described a similar approach in that an appropriate ethics audit would reveal areas of discrimination, unfairness or discontent with the organisation. However, he suggests that it should also go beyond these areas to consider ethics in the broader sense and be concerned about quality of life and relationships between people. Allen (1995) also outlined that an ethics audit can be used by an organisation as an external tool to foster trust between it and the community by sending out a message that it is serious about ethics.

Allen (1995) identified five parts to an effective ethics audit:

- Questionnaires: he suggests that questionnaires should be distributed to all staff, senior executives and random sample of external constituents. Allen does not actually say what the focus of the questionnaires should be.
- Interviews: he suggests that the auditor conduct in-depth interviews with key senior executives and staff which would include the executive or CEO of the organisation. The purpose of these interviews would be to provide additional information and verification or contradiction of the questionnaire results.

- First hand inspection: the auditor would inspect organisational documents that include policy manuals, financial statements, public-relations literature, codes of ethics and codes of conduct.
- Final report: the auditor would collate the information into a final report, presented to executive or board, depending on who initiated the audit. In this way Allen suggests that the person receiving the audit must then assume responsibility for acting on its recommendations.
- Follow up: Allen (1995) suggests that the ultimate reason for conducting an ethics audit is to provide the organisation with an opportunity for reflection. By ensuring that the audit becomes an organisational document it can alert people to the problems and issues that were previously hidden.

As the steps above indicate, Allen (1995) provided greater clarity on audit structure, however, he appears to rely on the auditor's external position to ensure appropriate content and validity. Like the other approaches canvassed in this chapter, Allen provided a general overview of some of tools and techniques that can be used as part of the audit's data collection; unfortunately he does not specifically address what types of issues should be the focus of the questionnaires and the interviews.

Ritchie (1996) suggested that such social research requires skill and expertise to develop and implement the research tool. Audits can be conducted by a combination of written and anonymous questionnaires or by face-to-face interviews. Both methods have advantages and disadvantages. Face to face interviews allow for additional probing and explanation, while questionnaires can provide anonymity, enabling staff to say things they might not necessarily say in person. The disadvantages are that surveys do not always allow for all issues to be discussed, questions may be misunderstood and not completed. Interviews can pose problems with anonymity and there are issues surrounding who is appropriate to interview staff. There are advantages with the trust and credibility of internal staff, although, the reverse could also apply. The advantages of a consultant include objectivity and interview experience, however, employee mistrust and poor understanding of the staff and culture can occur.

Lagan (2000) essentially argued that the ethics audit is an analytical process that helps inform an organisation as to its current ethical climate. She does suggest that in order for an organisational ethics programme to be sustainable, management policies need to be open to review and change as new information and techniques emerge. These changes could include the values of the organisation or those a wider society in which the organisation is located. Like Valance, she suggests that what can be measured often attracts greater attention within an organisation. However, Lagan does not provide the specific details regarding what a total review of the ethical system should encompass.

Harrison (2001) provided some information concerning what actually constitutes an ethics audit. He cited an example of Ethiscan, a Canadian business consultancy firm established in 1987 that conducts ethics audits. Twelve questions are supplied that focus on wider issues such as: whether company values are supported or compromised in the face of ethical challenges, whether the organisation believes its code is out of date, whether it is aware of other companies' standards, whether employees need guidance as to how to make ethical decisions in relation to dilemmas such as bribery, gift-giving receiving and other sensitive practices, whether employees report suspicions of wrongdoing and whether there are better ways to foster ethics throughout the organisation.

Ferrell, Fraedrich and Ferrell (2002) provided more specific details as to the focus of ethics audits suggesting that organisational performance can be measured in terms of commitment of employees when dealing with ethical issues. They identified that an effective ethical system uses investigatory and reporting resources that includes external auditing as a means of benchmarking compliance standards and ensuring objectivity. They suggested that where organisations have established ethical systems with reporting lines or internal systems such as hot lines, recording the volume and nature of the usage will provide important information as to the ethical climate within the organisation. In addition they also identified the use of interactive techniques such as role-plays and management simulations to determine how managers cope with difficult dilemmas. This is similar to the concept of assessment centres often used in employee selection whereby an individual's skills and abilities are assessed through role-plays and real-life scenarios (Burns 1995). This is also similar to Harrison's (2001) description of integrity audits.

Lowery (1997) also identified that an independent ethics auditor would need to begin with an assessment of the ethical climate of the organisation, in particular the specific

risks associated with any of the research conducted as part of the audit. Lowery (1997) concluded that ethical audits are an important way to ensure organisations comply with the range of relevant legislative requirements of a host country thus minimising any legal implications. However, he stressed that the most beneficial outcome of a corporate ethics audit is the opportunity to implement the recommendations associated with the findings and identify appropriate ethical systems necessary to ensure compliance. As with other descriptions of ethical audits discussed in this chapter, whilst there is a degree of information about areas of sensitivity, Lowery (1997) does not discuss or identify specific methodologies or strategies to conduct audits. Ritchie (1996) and Trevino and Nelson (1999) also advocated the use of an external consultant with expertise in the field of ethics as an important part of the diagnostic process and any resulting organisational change effort. An advantage of external consultants they identified was greater willingness of employees to discuss sensitive issues with an objective independent person.

Reamer (2000) suggests that audit findings should be used by individual practitioners, administrators and ethics committees to identify the areas of priority based on the highlighted degree of risk. The second process is for the committees to establish a clear set of priorities for resolving or improving the problem areas. These could include reviewing forms and policies and preparing detailed procedures to follow in solving specific problems. Finally he suggests that practitioners, administrators and the committees need to identify which staff will be responsible for the various tasks and establish a timetable for the completion. This would also include a mechanism for follow-up to ensure that each task is completed appropriately.

According to Hoffman (1995) organisations ought to disclose the results of their audits more widely both within and without the organisation. Disclosure will strengthen the performance of an organisation's ethics programme and provide opportunity for constituents to contribute suggestions for improvement. It has the advantage of reinforcing the principles and clearly demonstrates the organisation's commitment to the programme. This is also consistent with the literature, however, it is not clear as to whether disclosure should be to the environment as a whole or only to key stakeholders.

2.5.3 Examination and Review Conclusion

Clearly there is general agreement amongst the various authors that ethics audits need to be conducted in order to determine the effectiveness of any organisational ethical system. The motivation for conducting an ethics audit seems to vary from the purely legalistic and compliance with legislative requirements, to the more proactive or strategic orientation of ensuring effective organisational systems. There also seems to be consistency amongst the authors that the general focus of an ethics audit should be to probe sensitive areas and analyse policies procedures related to ethics, in addition to enculturation methods such as training and communication. However, as the review of the literature has demonstrated, there is a lack of specific detail as to exactly what should constitute an ethics audit. This may be due to the diversity of organisations and industries in which audits are supposedly used. However, as noted below, McDonald (1999) stated that one of the major problems with business ethics literature is its lack of practicality for business. She argues that managers seek real and practical strategies that can be easily adopted; yet a characteristic of much of the literature regarding ethics audits, as reviewed in this chapter, is the absence of substantial details and application.

There is greater agreement, however, on the techniques that could be used to conduct such audits. The use of qualitative analysis seems to be prominent amongst most methods in particular the use of discourse through interviews, seminars and discussion forums as a means of analysing not only individual understanding of ethical policies but also their ability to utilise decision-making tools as a means of resolving dilemma and problems. However, with few exceptions, most authors do not elaborate on the types of questions or the strategies that should be pursued when using such techniques. Much of the organisational development literature in addition to consulting literature, details different educational philosophies such as humanist and gestalt and their suitability and appropriateness. Similarly, communication literature details different questioning styles, such as directed questions, mirror questions and other examples of behavioural interviewing. This level of detail would enhance the detail concerning ethics audits and provide greater insight for those responsible for their use.

Several conclusions can be drawn from the generality of the literature including: that ethics audits need to be specifically designed to suit the particular organisation, need to be conducted regularly, at both the beginning of the ethical process and then on a yearly

basis as a means of constant review. Another conclusion that can be drawn is that ethics audits also need to be concerned with examining both the formal organisation, including the effectiveness of rules, policies and procedures and consideration of the organisational structure in addition to the informal cultural issues that exist within the organisation.

2.6.0 Empirical Evidence in Support of Ethical Systems.

Earlier in this chapter integrity and compliance approaches were identified as being the basis for the development of an ethical system. Each framework, whilst having differences as to the extent of written policies and procedures, had critical elements in common that needed to be implemented, consistent with the nature of the organisation, so as to ensure fit. A common theme in organisational literature, particularly strategic management and change management or organisational development, is an emphasis that new systems or policies need to be seen within the context of the entire organisation. Carnall (1990) and Harvey and Brown (2001) identified that the introduction of partial systems leads to less effective outcomes. Thus the failure to complete and implement any part of a framework would result in a less effective ethical system.

It is the contention of this thesis that consistency, or fit between the ethical system and the nature of the organisation, is imperative so as to ensure an effective ethical culture. This is a view that is supported in ethics literature and research, most recently by Trevino, Weaver, Gibson and Ley Toffler who analysed Fortune 1000 firms during the late 1990s to determine what constitutes an effective ethical programme. They found that what helps most in generating an ethical culture is the consistency between policies and action in addition to: ethical leadership, fair treatment of employees and open discussion of ethics within the organisation (Trevino, Weaver, Gibson & Ley Toffler 1999).

2.6.1 Little Substantive and Comprehensive Research

An examination of business ethics literature reveals few studies examining the effectiveness of complete ethical systems as outlined in this chapter. This is identified by Trevino et al. (1999 p.132) who stated that 'little empirical evidence exists to support the effectiveness of particular approaches to the development of ethical culture, through

formal mechanisms such as codes of ethics, codes of conduct and support mechanisms'. Lefebvre and Sing (1992), in an examination of corporate codes of ethics in Canada, observed that research into codes and aspects of supporting codes was only a recent phenomenon and that little substantial information was available.

Cressy and Moore (1983) analysed 119 codes deposited in the John H Watson Library in New York during the early 1980s and found that conflict of interest was the most prevalent issue addressed by codes. They also found that the ultimate authority for legal decisions rested with top management and concluded at the time, that the establishment of an overseeing process, combined with self reporting mechanisms were more effective in achieving code compliance than solely relying on a code or integrity as a means of compliance

Professor of accounting at DePaul University in Boston, Curtis Verschoor, analysed a range of organisations using a Fortune 500 measure known as market added value. He identified that organisations with ethical systems had on average 2 to 3 times higher market added value than those who did not. Whilst this may appear a positive reinforcement of ethical systems, the study did not distinguish or detail the components of the ethical system and whether alignment to structure increased effectiveness of the ethics system (Verschoor 1999).

Izraeli and Schwartz (1998) cited a study by the Ethics Resource Center entitled 'Ethics in American business: policies, programmes and perceptions', which provides an indication that ethics programmes are beneficial in improving organisational ethics. The resource centre survey analysed employee attitudes and behaviour with respect to the existence of three components of an ethics programme: the existence of a codes of ethics, secondly, the introduction of ethics into management training and thirdly, the establishment of an ethics office or officers within the organisation. Over 4000 workers in the US companies representing different levels of responsibility, different job function, company sizes and industries were surveyed. According to the ethics resource centre, ethics programmes had a positive impact on employee behaviour and their perception of the behaviour of fellow employees, management and their organisations. The most positive impacts were reported in organisations that had all three components of the ethical system. They discovered that organisations that only use a code of conduct as the sole means of developing an ethical system, often found that it

resulted in a limited effect on employee perceptions. The ethics resource centre (1994) suggested that holistic approaches to organisational ethics, increases employee awareness of unethical practices, increases the willingness of employees to report breaches of ethical standards and increases the level of satisfaction experienced by employees following positive outcomes from the reports. Izraeli and Schwarz identified a further study by the Council of ethical organisations that surveyed 750,000 employees from 203 large US corporations and found that 38% had significantly improved their ethical compliance programmes in response to the guidelines (USSC 1995, p178). Izraeli and Schwarz (1998) found that organisations that had implemented or strengthened an existing comprehensive ethics compliance programme, had employees who were less likely to violate laws and policies.

Similarly, other studies have identified that unethical practices can have a real negative impact on profitability through increased costs and a loss of trust. Rieck (1998) identified increased costs due to litigation and legal settlements awarded by US federal courts as a result of illegal direct marketing practices of various firms. Stainer and Stainer (1993) attempted to establish a relationship between productivity, quality and ethics by surveying 480 large European firms; however, the classification of ethics appears to have been based solely on the presence of a code as an indicator, and the survey sought company perceptions about the value of ethics rather than empirical data to support the relationship. Orlitzky, Schmidt and Rynes (2003) conducted a meta-analysis of 52 existing studies of the effect of corporate social responsibility and organisational performance. They concluded that corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to be of benefit to organisational performance. Whilst the study supports more ethical practice through social responsibility, its focus is on existing studies and does not engage in direct data collection to support this concept. In addition, the focus is on external relationships as more commonly associated with corporate social responsibility, rather than the internal systems designed to promote ethical behaviour of employees.

Graafland (2002b) puts forward an economic model that seeks to establish the trade off between principles and profits. He suggests three principle reasons for the growing attention to business and ethical behaviour which all relate to issues of profitability. Firstly, stakeholders and shareholders punish firms through investments decisions when actions are not in line with moral expectations. Secondly, the actions of NGOs in

publishing unethical practices have a direct impact on corporate reputation and profitability and, thirdly, community and social expectations of more ethical behaviour are forcing companies to change practices. However, Graafland (2002b) does not address what constitutes ethical behaviour or systems, rather his focus is on establishing an economic model around investment decisions on the part of key stakeholders. Rao, Hamilton and Brooke (1996) investigated the effect of published unethical behaviour on share prices. Using reports of unethical behaviour published in the Wall Street Journal from 1989 to 1993, their analysis showed that the share market performance for those companies was lower than the expected market adjusted returns. They concluded that unethical conduct by firms that was discovered and publicised does impact on the shareholders by lowering the value of their stock for an appreciable period of time.

2.6.1.1 Narrow Research

Much of the literature focuses on isolated aspects of ethical systems such as the effectiveness of codes or the effectiveness of ethics training. For example, studies by Dalton, Metzger, Hill & Simmers (1994) concentrated on formal codes of conduct and their impact on ethical behaviour. They identified that formal codes are associated with decreased incidents of unethical behaviour. Research by McCabe, Trevino and Butterfield (1996) also focused on formal codes, however, they suggested that codes make little difference to ethical behaviour. Badaracco and Webb (1991) focused primarily on aspirational approaches, those defined by Paine (1994) as integrity approaches, suggesting that such codes are more effective in encouraging ethical behaviour. This is consistent with the study conducted by Liedtka (1989) on the topic of ethical congruence. In the conclusion of the study she stated that an organisational system plays a critical role in setting the stage upon which the ethical dilemmas that managers face could be examined and resolved.

2.6.1.2 Effectiveness of Codes as Behaviour Modifiers

Clark and Leonard (1998) identified several characteristics, summarising some of the research conducted into the effectiveness of codes and identify that codes differ in their form because companies differ in structure. However, codes have many common characteristics. They also identified that businesses perceived codes to be important factors in fostering ethical conduct and they identify supporting research, namely a 1988

study by Touche Ross consultants, in which respondents cited the adoption of business principles as the most effective measure for encouraging ethical business practices.

Although little research has been done on the effectiveness of corporate codes of conduct, much scholarly debate has been generated on the topic. Bowman (1981) surveyed 650 major firms in the United States and found the majority had codes, and felt the codes were helpful in ensuring praiseworthy business conduct and believed that their employees were familiar with the standards as outlined by the code. He concluded the existence of codes provides a frame of reference for the behaviour in an organisation. He added that clear, specific standards as identified by a code, demonstrate an organisation's professional and ethical posture. Employees must know the limits of acceptable conduct and have an institutional standard against which to refuse unethical requests (Bowman 1981).

Benson (1989) felt that codes of conduct generally enabled organisations to move towards creating a more ethical corporate climate. However, Cressy and More (1989) suggest codes of ethics within organisations were too inward focused, concentrating on issues of embezzlement, fraud and corruption rather than broader issues of social responsibility. Clark and Leonard (1998) conclude that one of the reasons why a code of ethics can be ineffective in influencing behaviour is because insufficient attention is given to how good codes are communicated, enforced and used as the basis for strengthening the culture of the organisation. Longstaff (1994) supports this view, suggesting that simply developing codes of ethics or conduct will not guarantee effective ethical culture. Farrell (1998) agrees, having analysed Australian approaches to institutionalising codes during the mid 1990s. He found that many attempts to create ethical cultures in Australian organisations have proved ineffective because the codes are developed and imposed on employees and important support mechanisms such as communication strategies, training and development and reporting mechanisms are not established. This suggests that the causes of ineffective ethical systems are multiple, from the development of ineffective and inappropriate codes to poor implementation and the lack of support mechanisms.

2.6.1.3 Effectiveness: Changes to Organisational Structure

Hoffman (1995) emphasised that the development of an ethical culture needs to be supported by changes to an organisation's structure. This contention was supported by Mintzberg's work in organisational theory that highlighted the importance of fit between structural configuration and environmental conditions (Mintzberg 1981). However, little specific research was identified that directly focuses on the effectiveness of ethical systems by correlating changes to organisational structure and ethical behaviour. Lovitky and Ahern (1999) identified structural characteristics of effective compliance programmes, referred to in this thesis as the formalised approach to ethics characterised by codes of conduct, as the primary mechanism of behaviour control supported by training and reporting systems. They found that in larger organisations a specific group or section might be needed to administer the ethics function. However, they provide no evidence or any research findings in support of this contention. Trevino, Weaver, Gibson, and Ley-Toffler (1999) also identified similar changes to organisational structure to those suggested by Hoffman (1995). Lagan (2000); Lovitky and Ahern (1999) and Weiss (1996) identify official policies, procedures and ethics officers as examples of structural changes required as part of an ethics system. However, these authors provide no specific evidence to directly support a relationship between effective ethics programmes and the changes required in organisational structure, nor are there any specific strategies that identify how differing levels of centralisation, complexity and formalisation may impact upon the ethics systems. Trevino et al. (1999) identified that the critical issue was not whether the structural mechanisms were in place but rather the extent to which employees were aware of their existence.

2.6.2 Research into Australian Ethics Systems

Few Australian studies were identified as part of the literature review and these focused primarily on the existence of codes and support mechanisms. Farrell and Cobbin (1996) and Farrell (1997) surveyed 220 Australian organisations ranging from government to privately listed companies. Only 95 organisations, of which 65 per cent were government organisations, responded as having codes of conduct or ethics. In terms of specific structural changes, only 10 per cent of respondents indicated they had established formal ethical committees and only 15 per cent indicated they had an established position with responsibility for overseeing the code, such as an ethics

officer. This seems to suggest that few Australian organisations have established structural mechanisms in support of the ethical systems. If Mintzberg's contention of structural fit is correct, then a conclusion that can be drawn is that the majority of Australian organisations, which have codes of ethics/conduct, have designed ethical systems that are essentially out of fit with their structure due largely to the absence of critical support structures and ineffective implementation strategies.

According to Longstaff (1996) Australian organisations have, until recently, adopted an adhoc approach to the challenges of integrating ethical concerns into the management of organisations. He suggested that even well intentioned people commit the folly of developing codes as an alternative to the strategic process of developing an ethical culture. A reason for this is that standardised codes are relatively cheap to develop and publicise. Longstaff identified that many Australian organisation during the 1990s developed an approach to ethics characterised by the delegation of the responsibility for the ethics system to the human resources department or to a consultant. An alternative may be to have an appointed individual draft a code of ethics or code of conduct. He does say that Australian organisations typically publish and distribute the code throughout the organisation, occasionally with a sign off requirement, and this may be followed by the activation of a monitoring system. Importantly he suggests that most Australian organisations assume that this completes the ethics system process.

Whilst he acknowledged this to be a simple view of how Australian companies develop ethical systems, he suggests that it is indicative of real events. His first two points emphasis the inappropriate delegation of the task of developing an ethics policy. Human resource departments and practitioners are not necessarily trained in the field of ethics. Whilst consultants can be a more attractive option, as identified Harvey and Brown (2001) in terms of perceived expertise, greater objectivity and limited contracting to the organisation resulting in lower costs, Longstaff (1996) concluded that most Australian companies have looked for cheap off-the-shelf solutions The analysis conducted by Farrell (1997) supports Longstaff's conclusion.

The lack of structural adaptation for Australian organisations is consistent with the findings of the Center for Ethics at Bentley College, whose regular analysis of American organisations and their approaches to ethics found that in the late 1980s, less than 10% of companies had made changes to formal structure when introducing ethical

systems. (Hoffman & Moore 1990) By the mid 1990s the Centre identified that up to thirty per cent of surveyed Fortune 500 companies had introduced formal changes to the structure in the form of either ethics committees or ethics officers (Hoffman 1996). As previously identified in this chapter, one of the reasons for this change could be the introduction of federal US legislation requiring formal compliance programmes as a means of controlling corruption.

2.6.3 Inappropriate Delegation.

The delegation of the task of establishing an ethical system is seen as critical to its design and implementation. Perhaps one of the main reasons for development of inappropriate systems is that the task is often delegated to individuals who are not knowledgeable in the area of ethics. Business ethics involves specialist knowledge in various disciplines including philosophy, organisational behaviour and organisational structure and design. Preston (1996) has identified that knowledge of business ethics is important for trainers when undertaking ethics training. Similarly, Sampford (1994) suggested that the development of ethics must be based on sound ethical principles. This is supported by Newton (1995) who clearly stated that established ethical principles are a necessary basis for a valid ethical system. Clearly these statements imply that knowledge of ethics is required to design an effective system. This expertise is not common within organisations and often mistakes in the design, implementation and support of ethical programmes are made through ignorance rather than intent.

2.6.4 Executive Support.

The need for executive and senior manager support of the ethics system was identified earlier in this chapter as having a direct relationship to several critical design parameters. Demonstrating appropriate behaviour via role modelling is seen as a function of ethical leadership and a major feature of the establishment of organisational values and culture. Executive level support was also identified as an issue of strategic management as it is predominantly senior executives who have legitimate power to instigate an ethical system and to ensure that adequate resources are allocated for its design, implementation and ongoing maintenance. Hosmer (1991) defined ethical codes as statements of the norms and beliefs of an organisation. These are generally proposed, discussed, and defined by the senior executives of the organisation and then distributed

to all employees. He cites a major problem in that codes are invariably what the senior people in an organisation want others to think.

Some research exists that supports the impact of leadership on organisational behaviour. Trevino, Weaver, Dixon and Ley Toffler (1999, p.138) identified that a values orientation is the single most effective influence of behaviour among six firms surveyed in an assessment of the effectiveness of legal compliance programmes. As previously argued by authors such as Ivancevich & Matteson (1996); McKenna, (1999) and Robbins (1998), leaders play a critical role in the establishment of ethical values within the organisation. Newton (1995) argued that much of the blame for the failure or ineffectiveness of ethical systems can be traced back to the responsibilities of senior managers. She identified three important principles that must be insured in order to enhance the effectiveness of ethical systems. According to Weiss (1994) ethical principles and practices in business start with top leaders' expressed, shared and implemented values. The corporate culture then embodies these values and practices. Development and implementation of these ethical values into codes, ethics training courses, ethics offices, sexual harassment programmes and ombudsman and peer review programmes, become the operating initiatives that organisations pursue to remain competitive, responsible, and to build trusting relationships with stakeholders. The implementation of these initiatives and the commitment of time and effort from company leaders are critical. Weiss (1994) suggested there is a responsibility on the executives of organisations to develop an appropriate culture. They have the responsibility to start the process, ensure that it is adequately resourced, supported and maintained; failure to do so results in a failed ethical system (Newton 1995).

2.6.4.1 The Principle of Participation

Studies in organisational behaviour suggest that greater commitment to a decision flows from the opportunity to participate in the process. This creates a sense of ownership and commitment. The opportunity to participate strengthens the likelihood of a successful programme (McEwan 2001). Newton (1999) suggests codes are often conceived subjectively, by executives or their nominees, to be applied coercively - being devised by a more powerful group applying to a less powerful group (but not necessarily to themselves). Such programmes are often devised with little or no consultation with those to whom it will apply.

Longstaff (1996) identified several key factors that explain why ethical systems do not prove effective. Many of his observations parallel Newton's three principles. He suggested the failure to involve everyone in the design process means the resulting codes have little relevance to those to which it applies. Consistent with the first principle of participation, Longstaff suggested that ethical systems are often developed in a short period of time, giving credence to the notion that it is nothing more than a gesture by management. He argues that a critical part of the process is ensuring regular reports of the ethical system development to employees. Like Longstaff and Hoffman, Trevino et al. (1999) identified that the behaviour of the senior executives of the organisation is the principal determinant of the ethical tone of the organisation. Leaders serve as role models whilst middle managers are responsible for the rewards, punishments and the message of how things are really done in the organisation. They suggested that where employees see that supervisors and executives take ethics seriously, as important as bottom-line issues, then ethical behaviour is enhanced. Trevino and Nelson identified two major factors as critical for this climate to develop. Firstly, the organisation climate must permit the open discussion of ethical and values issues. This is commonly referred to as discourse. Secondly, that the reward system establishes support for ethical conduct. According to their research, employee perceptions that ethical behaviour would be rewarded by an organisation were more important than the perceptions that unethical behaviour was punished.

2.6.4.2 The Principle of Validity

Newton (1995) argued that codes need to have an ethical basis, reasoned, and supported by logic, coherent, a commitment to justice and due process. In other words an ethics principle needs to underpin the development of an appropriate code. She suggests that rather than codes of ethics being developed correctly, they are often developed subjectively based on individual's perceptions about what one should or should not do. This is evidenced by Farrell's (1997) Australian research and a view articulated by Longstaff (1996), that people who do not have the required knowledge and expertise to develop the programme most often undertake the development of ethical systems. The development of such programmes needs to be based on solid information, taking into account existing literature and research in this field.

Trevino, Weaver, Gibson and Ley Toffler (1999) go further and identify conditions that undermine ethical systems. The first is the extent of employee awareness of the ethical and legal issues that arise at work. They believed that no matter how strong an individual's values, an organisation cannot expect employees to be familiar with all the laws and regulations that apply to their work. Nor can they be expected to be familiar with the ethical ambiguities they may face within the workplace. They argued that many people often do the wrong thing simply because they are unaware of what they should do. Thus ineffective communication of task and responsibility can be seen to be a major problem when trying to promote ethical systems

Secondly, Trevino et al. (1999) identified that unless an appropriate environment exists, employees will be reluctant to report inappropriate behaviour. Unless employees believe they can deliver bad news to management without fear of repercussion they are unlikely to inform the organisation of developing ethical risks or problems until it is too late. Related to this issue they further suggest that unless employees believe their identities will be protected when reporting violations, they are unlikely to bring such matters to the attention of management. In addition, if they believe that nothing will come of the report, this will further act to dissuade reporting. The importance of establishing effective reporting systems, including the provision for anonymity was identified in Sections 2.3 and 2.4 of this chapter. It is the absence of such systems and supportive environments that Trevino et al. (1999) suggested often leads individuals to report outside the organisation through the public media channels.

2.6.4.3 The Principle of Authenticity

Newton (1995) argues that the crucial test of any ethical culture and the stated values of the organisation is the public behaviour of its senior officers. Employees, other constituents, stakeholders and customers need to believe that the organisation is committed to its values and ethical standard. Nothing destroys an ethical culture quicker than the discovery that executives and board members failed to adhere to the standards they expected of their subordinates (Collins & McLaughlin 1996). Paralleling Newton's second principle of authenticity, Longstaff (1994) argued that culture and the behaviour of individuals should also be reflected through different codes and ethical systems. The importance of role modelling was discussed at length earlier in Section 2.3 of this chapter.

2.6.5 Ineffective Support Mechanisms

Hoffman Moore and Mills (1990) detailed the Center of Business ethics surveys conducted during the 1980s, which demonstrated that whilst the majority of US organisations stated they were endeavouring to be ethical - evidenced by 75 per cent of the organisations having developed written codes - only 14 per cent of the organisations surveyed had established ethics committees, and only 5 per cent had ethics officers. They argue that it is difficult to see how codes and ethical systems can be overseen and enforced without a committee or an officer assigned to this task. They also identified that the communication of organisational codes was ineffective with less than 50 per cent of the advice concerning appropriate standards coming through formal management training. Most of the communication came through printed materials such as company newsletters and pamphlets. Evidence from later surveys showed much improvement in the 1990s with over 90 per cent of companies identifying they had a written code, 32 per cent had an ethics committee and 43 per cent reported the use of workshops and seminars to communicate the policies (Hoffman 1995).

Dean (1992) observed whilst the use of sanctions in the support of corporate codes are an important part in establishing appropriate behaviour, they are not enough to assure ethical decisions. He suggests the establishment of committees within organisations, to investigate the typical types of ethical dilemmas that confront organisational members, informs the development of appropriate codes and at the same time allows for participation. Farrell, Cobbin and Farrell (2002) suggest that this is consistent with the strategies advocated by the behaviour change experts, that individuals more readily accept decisions which they have been party to.

Schlegelmilch and Houston (1990) surveyed 200 of the UK's largest companies – drawn from the Times top 1000 companies – about their approaches to codes of ethics. Whilst forty-nine per cent responded to the survey only thirty-seven per cent actually completed the questionnaire. This study revealed that some organisations were committed to organisation-wide distribution of the ethical policy, whilst others saw the policy as a potential source for criticism and therefore restricted its circulation. Only sixty-one per cent of respondents circulated their ethical policy to all employees, twenty-six per cent restricted the policy distribution to management only, while ten per cent restricted distribution to shareholders and boards of directors. It is clear from this

research that strategies for disseminating information throughout the organisation differ substantially.

2.6.6 Lack of Training and Education.

Training and development were identified earlier as significant mechanisms for generating change in employee behaviour and reinforcing cultural control strategies. Business ethics literature clearly supports training as a critical feature in either compliance or integrity approaches to ethical systems. Training and development literature provides general evidence that supports the contention that training both new employees and existing employees enhances organisational performance. Hall (1986) found that a comprehensive orientation programme, designed with the intention of introducing new starts to critical organisational values, followed by specific job-related training, results in new employees achieving productivity levels comparable with seasoned employees up to three months earlier than those not provided with such programmes. Whilst specific research into the inclusion of ethics as part of an orientation programme was not identified, these general conclusions tend to suggest that the incorporation of ethics as part of orientation programmes is likely to increase employees' awareness of ethical standards and strategies. Schlegelmilch and Houston (1990) cite Krolick (1983) who suggests that many organisations mistakenly believe that solely supporting codes, through reward and punishment systems, will resolve major moral dilemmas confronted by individuals within an organisation. They argued that codes of ethics as a singular policy will have limited value without accompanying policies focusing on education, voluntary reporting systems and other processes designed to support enforcement.

Consistent with Hoffman's findings in US organisations, Farrell (1997) noted similar trends in Australian organisations identifying strong support for the concept of ethics training. Of the 95 responses analysed, 82 per cent supported the concept of ethics training, 72 per cent believed that it should be completed within the organisation and 74 per cent expressed the view that all employees of an organisation should be trained in ethics. However, an examination of actual ethics training revealed a lack of support within Australian organisations. Of the respondents, only 46 per cent had made arrangements for some form of ethics training for their employees, with the majority identifying ethics as part of their orientation programme and the primary source of

training. While 42 per cent of the organisations trained managers only, 22 per cent trained directors and executives rather than all staff and only 18 per cent of enterprises conducted specific seminars in ethics for employees.

Lagan (2000) cited the 1999 KPMG and Australian Institute of Company Directors survey that showed that most Australian company directors assumed ethics was learned away from work with family upbringing seen as the key influence. Only 18 per cent of respondents to this survey rated professional ethics training as significant influence on behaviour. Lagan's comments seems to be at odds with Farrell's findings, however, Farrell did not identify the organisational level of his respondents. However, there seems some consistency between the survey findings of KPMG/AICD and those that show a general lack of support in the application of ethics training within Australian organisations. It can be concluded that the lack of support for education in ethics would be a major factor in the ineffective implementation of an ethics system, in the same way that lack of training in any organisation standards, such as occupational health and safety, would result in inconsistent behaviour.

2.6.7 Lack of Critical Review

The literature on the ethical audits and social auditing demonstrates there is general agreement that ethics audits should occur, however, little substantive research documenting a complete audit process and how organisations can actually use such processes to enhance their ethical system was identified. As suggested by MacDonald (1999) and stated on a number of occasions in this chapter, a major problem with ethics literature has been its hypothetical nature and lack of practical application. At the time of writing this thesis little research can be provided with respect to whether organisations undertake a detailed exploration of their approaches to ethics and what is done with the information.

2.7 Conclusion

This chapter has presented the current literature that purports to describe effective strategies that organisations should utilise in order to develop an ethical culture. It identified that the majority of this literature falls into either the category of compliance approaches typified by the use of rules and regulations as demonstrated by codes of

conduct, or into the category of integrity approaches with codes of ethics and aspirational guidelines to encourage appropriate ethical behaviour. It was demonstrated that both approaches use common components or techniques of enculturation such as: communication strategies, training and development, the use of organisational variables such as rewards and penalties, as a means of developing an ethical culture. However, it was also shown that the literature does not provide substantive guidance as to how these components would differ in the two alternative ethics strategies. The importance of senior executive support and leadership was emphasised throughout the literature, as was the need to alter organisational structure, in particular the creation of specific functional areas such as ethics committees and ethics officers, to assume responsibility for the system. Effective reporting systems to encourage identification of inappropriate behaviour were also identified as a means of encouraging ethical dilemmas to be highlighted and thus resolved. A detailed description of the current literature surrounding ethical auditing or social auditing, as a means of analysing or evaluating organisational ethical systems, was also presented. The conclusion drawn was that little substantial data is available as to what an ethics audit should be, how it should be conducted and how it contributes to the overall review of the ethical system. Lastly, the chapter reviewed available empirical research in support of organisational ethical systems. It was clearly demonstrated that whilst some research does exist it tends to focus on specific aspects of ethical systems such as the influence of codes, the impact of rewards, importance and effectiveness of training. No comprehensive analysis of a total ethical system was found in the literature at the time of submission of the thesis.

Chapters four, five and six of this thesis will present a series of case studies each detailing an Australian organisation and their attempts to develop ethical culture. The information contained in this chapter will be used to analyse each organisation's approach so as to determine its effectiveness. Information from the following chapter will be used to classify the organisation's structure to determine the appropriateness of the ethical system.

This chapter reviewed the range of literature available detailing approaches to developing ethical systems or frameworks for organisations. It also demonstrated the limited and narrow nature of published research that supports the effectiveness of these strategies.

It clearly identified that the majority of business ethics literature concerned with establishing an ethical culture within an organisation, seems to be polarised between those that advocate the use of extensive rules and regulations as a means of enforcing compliance with declared ethical standards, usually taking the form of a code of ethics and code of conduct, versus those approaches that advocate the use of principles as a means of guiding behaviour and allowing individuals higher discretion so as to make a decision consistent with ethical standards, often linked to professionalism. Paine's typology of compliance versus integrity was used as the basis for classifying the majority of the literature. It was clearly shown that many authors had proposed similar approaches with characteristics that could be classified as either the compliance approach, or emphasising principles consistent with the integrity approach.

The chapter then outlined the characteristics common to both approaches including: a general agreement that organisational ethics needs to have a strategic focus and that leaders of organisation were critical not only in ensuring that the ethics strategy would be given prominence, but that as organisational figureheads they play a critical role modelling appropriate behaviour for the rest of the organisation. This chapter also identified that the three most common causes of failure of organisational ethics rested largely with the senior executives of an organisation. There was general agreement in the literature that a written policy for ethics needed to be established, in a participatory manner, so as to build commitment from organisational members. This was shown to be consistent with organisational behaviour and organisational development literature that outlines participation as a strategy to ensure effective introduction and maintenance of organisational change.

The written policies of codes of ethics and codes of conduct were shown to be examples of formalisation, a structural variable. It was also demonstrated that the business ethics literature provided little guidance as to how and when these policies should be used in different organisational contexts. Strategies for enculturating the ethical standards throughout the organisation were identified as including: appropriate communication, socialisation, including training and development, structural changes including the creation of functional groups or functional positions responsible for the administration of the ethics system and lastly an extensive discussion was presented identifying the range of approaches for evaluation, commonly referred to as ethics audits or social responsibility audits.

A critical finding presented in this chapter was the limited literature that documents evidence as to the effectiveness of organisational approaches to ethics. Few specific studies were identified that considered all characteristics of the ethical frameworks. No documented evidence of the success or failure of an entire ethical framework could be presented as part of the literature review. Numerous sources were identified that examined the impact and effects of various components of an ethical system. The influence of leadership as a role model factor in encouraging ethical behaviour, was discussed along with the effectiveness of written codes of ethics and codes of conduct, training and development and its importance in developing and maintaining an ethical culture. Little specific evidence was found concerning the effectiveness of social and ethical audits, as a means of identifying ethical deficiencies, or their use as evaluative frameworks. Importantly, studies were identified which related aspects of organisational structure, specifically those of size and complexity, to ethical behaviour in organisations. Compliance based approaches were found to promote greater levels of certainty and therefore less unethical behaviour in large bureaucratic organisations. These studies demonstrated the congruence between organisational structure and the ethical framework chosen increased the likelihood of effectiveness. This was found to support the central tenet of this thesis that ethical systems needed to be designed to fit the organisational structure. It was also noted that this was contrary to some of the business ethics literature that argued that formalised or bureaucratic organisations restricted freedom and therefore reduced the opportunity for ethical behaviour to emerge.

Chapter 3

Organisational Structure Considerations

3.0 Introduction

Debate exists as to whether the organisation, being the vehicle by which people produce goods and services, can be seen as a separate and morally responsible entity distinct from the individuals who make up the organisation. It has been suggested that organisations can be considered as moral agents because they engage in purposeful activity. They have goals that establish ultimate purpose, they make plans so as to achieve those goals, and they establish systems of communication and responsibility within the organisation to carry out these plans. They change such systems and plans regularly, which can be seen as constituting a form of memory; an important and necessary concept in the definition of being a moral person (White 1998). This thesis presupposes that organisations are moral agents and should be held accountable for their actions.

In organisations, systems of communication and responsibility help explain how individuals and groups relate to one another, what they are supposed to achieve, how they are to be held accountable and how performance measurements are to be applied. Essentially, this is the role of organisational structure and design. Organisational structure includes the detail of who reports to whom, who does what tasks and who is responsible for those tasks (Robbins 1990). Daft (1995, 2001) defined organisational design as the necessary changing of organisational structure to improve effectiveness in achieving the goals of the organisation. These propositions establish a direct relationship between the arguments for considering organisations as moral entities and the approaches to creating and changing organisational form. Given this relationship, it is then necessary to consider organisational structure when addressing the moral dimensions of organisations. Organisational structure has also been shown to have a direct influence on other organisational variables, such as strategy formulation, interaction patterns and member socialisation (Schminke 2001).

Consistent with these effects of structure, Schminke argued that there is also a likely relationship between structure and the ethics of organisational members. Ferrell, Fraedrich & Ferrell (2000) identified that the structures of organisations are critical to the study of business ethics, because the articulation of job roles and their responsibilities within structures may create the opportunities for employees to

engage in unethical behaviour. This view has been supported by White and Lam (2000), who have suggested that formal structure can create the opportunity for unethical behaviour, through lack of clarity in job descriptions or ineffective decision-making and accountability systems.

This chapter presents a critical analysis of organisation structure and design concepts and theories. It also considers literature surrounding the moral responsibility of organisations, with particular emphasis on decision-making systems and the use of rules and policies in order to establish ethical standards. , Current literature regarding the creation of systems that promote ethical behaviour within organisations has been divided into two models: either compliance or integrity (values driven) approaches. This chapter will demonstrate that organisational theory proposes a variety of structural configurations along a continuum between pure mechanistic and organic forms. Paine's (1994) compliance and integrity typology is theoretically insufficient to identify the most appropriate ethical system for many of the existing varieties of organisational structures. Her approach would be valid if there were only two forms of organisations: mechanistic and organic structures. Apart from a few exceptions, the literature that promotes ethical behaviour in organisations makes little reference to structural theory, with its different organisational designs. Similarly, organisational theory makes little reference to ethics. A clear relationship needs to be established between these two different disciplines.

As this thesis is built upon the assumption of organisations as moral agents, it is necessary to consider the ethical literature relating to this assumption for the following reasons. Firstly, there is the fundamental issue of whether organisations should or should not be held responsible for their actions. If organisations are not morally responsible for their actions, as Friedman (1970) suggests, then the only reason why policies and procedures that encourage ethical behaviour would be developed, is when they are seen as a type of empirical data which can be used to achieve stated goals (Ladd 1993). This thesis will demonstrate the reasons why organisations qualify as morality agencies, which need to develop and maintain standards that encourage appropriate ethical behaviour. Secondly, a further tenet of this thesis is that the theories presented concerning rationality, purposefulness and conscious intent by organisations are a requirement for moral responsibility, and the

strategies designed to encourage ethical decision-making are similar to the concepts used to describe organisational structure in organisational theory. It will also be argued that ethical literature pertaining to organisations is compliant with structural design strategies. Organisational theory presents a variety of structural configurations for different given scenarios in which the components of structure are changed appropriately. As this thesis concentrates on the ethical strategies used in large organisations, only bureaucratic forms of organisations will be considered.

3.1 The Basic Components of Structure

Robbins (1990) defined an organisation as a group of individuals who come together to achieve common goals. Organisation theory can best be described as a body of literature seeking to explain how organisations allocate scarce resources, including physical, financial and human, so as to achieve the organisation's purpose. It also seeks to identify the different structural forms that are most appropriate for particular contexts. This concept is referred to as the contingency approach to organisational design, in which different structural forms have differing internal structural characteristics described by a common set of terms and concepts. It is the differences between, and the emphasis placed on, the internal characteristics that largely account for different organisational structures.

Bedeian & Zammuto (1991); Dessler (1986); Hatch (1997) and Robbins (1990) identified three characteristics or descriptors of structure: *complexity*, *centralisation* and *formalisation*.

Complexity refers to the extent of differentiation within an organisation, according to the number of hierarchical levels (vertical differentiation) and the number of departments or divisions (horizontal differentiation). Such differences can be measured to identify degrees of complexity (Robbins, 1990).

Centralisation is the extent to which key decision-making occurs only at the higher hierarchical levels of the organisation. Limited authority and responsibility levels typify the centralised organisation, whereas an increased discretion of decision-making at lower hierarchical levels is characteristic of decentralised structures.

Formalisation has been identified as the extent to which the organisation has its rules and regulations written down as policies and procedures (Robbins

1990). An organisation with many written rules is defined as high in formalisation, while an organisation that relies on a common understanding of culture or ideology, is considered to be low in formalisation.

Each of these characteristics can be measured using diagnostic tools (refer to appendix 3). Several of these tools, which have been completed by members of the three organisations featured as case studies in this thesis, will be considered in detail in later chapters.

According to Robbins (1990) there is a clear interrelationship between these three measures and the generalisations that can be made concerning structural forms. For example, organisations that are highly centralised are also typically high in formalisation, with moderate to high levels of complexity. This is typical of those bureaucratic organisations that have many rules and regulations (formalisation), many hierarchical levels (vertical differentiation), and where most key decision-making is located at the senior manager level (centralisation).

An organisation exists for an explicit purpose. It is an instrument in the sense that it is designed to achieve a set of stated goals. Daft & Steers (1986) identified that an organisation is a deliberately structured activity system, where organisational tasks and activities are sub-divided between separate departments. The organisation possesses a hierarchy of authority, with clearly defined responsibility and decision-making systems. The subdivisions carry out parts of the production process. Having an activities system means that the organisation carries out specific tasks, through the use of knowledge, technology, people and machines to transform inputs into outputs. Individuals within the organisation undertake directed activities that are linked together to accomplish the overall task or fulfil the purpose of the organisation. Daft & Steers (1986); Narayanan & Nath (1993) and Robbins (1990) identified that organisations have limiting boundaries, distinguished by which employees and organisational elements are inside the boundaries, and which factors exist within the organisation's external environment.

3.2.0 Organisational Moral Responsibility

In determining whether an organisation can be held morally responsible for its actions, it is important to define the meaning of morality and moral responsibility.

Solomon (1992) defined morality as having to do with objective rules about especially important human activities. De George (1999) described morality simply as judgements of right and wrong, good and bad. Moral responsibility generally involves a causal connection to an action that has been committed knowingly and freely by an agent. It refers to holding people morally accountable for past actions, with individual accountability for care, welfare or the treatment of others, derived from the specific social role that a person plays and a capacity to make rational, moral decisions. Donaldson (1989) and Preston (1996) suggested that, while moral responsibility can be likened to concepts of autonomy and freedom, it could be better understood as the responsibilities that arise because of the existence of interdependent relationships. Organisational structure, as defined previously, encompasses these concepts of responsibility, accountability and autonomy, measured by levels of discretion. However, moral responsibility can be affected by uncertainty, difficulty or minimal involvement. The extent to which these variants lessen a person's responsibility depends greatly on the seriousness of the wrong. According to the definition of organisation, as described by some structural theorists, it would appear that an organisation does meet the minimum criteria of being morally responsible, because it has clearly defined goals and consciously changes its structure so as to better achieve those goals (Daft 2001; Daft & Steers 1986; Narayanan & Nath 1993 and Robbins 1990).

When individuals join an organisation, they become agents of that organisation. The concept of agency states that the agent must act in accordance with the interests of the organisation (Donaldson 1989). In this way the individual will be constrained from acting with full freedom and autonomy, with their behaviour being determined by the organisation. Can constraints of this type be seen as mitigating factors that reduce an individual's responsibility? Buchholz (1989) presented two perspectives concerning this issue: the traditional view, where those involved in decisions making do so on a conscious basis and are thus individually responsible, and the opposing view, that individuals make decisions collectively or contribute to them collectively, so that responsibility must be assigned collectively and not to particular individuals. These concepts have been used to discuss whether an organisation can be considered morally responsible for its actions. They relate to levels of discretion within an organisation, the way in which work is integrated amongst the various component parts, and the coordination strategies needed for controlling individual behaviour.

These are also aspects of organisational structure and design, which reinforce the proposition of this thesis, that there is a strong relationship between the two disciplines.

3.2.1 Morality and the Formal Organisation

Organisations are collective bodies with a defined purpose, a developed structure and an internal decision making system. These aspects have been interpreted to both support and reject the notion that a corporation can be considered a moral agent. One viewpoint suggests that because the organisation is goal directed and limited towards achieving its objectives, it acts in a bounded rational manner, and thus cannot consider any data that is not directly related to efficiency or maximization of its objectives. The alternative view is that organisations are consciously coordinated entities that have intent, and act in accordance with that intent through structured decision-making systems. Moreover, organisations consciously change structure so as to improve their performance. These characteristics have been proposed as constituting a form of consciousness and memory, consistent with the conditions required for acting as and being held to be morally responsible (White 1998).

3.2.2 Rationality and Organisations

The notion of rational decision-making assumes that organisations act according to a limited purpose, usually defined by their stated goals and objectives. Thus individuals, as officers or agents of the organisation, must make decisions for and in the name of the organisation, and make decisions solely by reference to the objectives of the organisation (Velasquez 1999). If this argument were correct then individual values, beliefs or issues of morality would have no relevance within the organisation. The organisation would be seen as amoral as it pursued its economic purpose. This argument, referred to as classical theory, was popularised by Friedman (1970) who proposed that organisations have only one purpose, which is to maximise returns to shareholders by profit maximization. Friedman argued that any action not consistent with these goals, or actions that restricted an organisation in the attainment of its stated goals, would be undesirable. He concluded that social or moral responsibilities of firms were inconsistent with the purposes of the organisations.

Ladd (1993) also suggested that examination of moral responsibility rested on the notion of rationality. The validity of evaluation would be limited to the extent to which an organisation achieved its stated goals, within the framework of existing conditions and rational means. This approach to effectiveness measurement has been defined by Cameron (1980); Hatch (1997) and Robbins (1990) as *rational goal attainment*. Using this paradigm, organisational decisions makers would only consider empirical data about factors such as costs, scarcity and other measures of economic feasibility (means) that can be related to the attainment of organisational goals (ends). The only way that moral considerations could then become relevant to the decision making of a formal organisation would be by becoming a form of empirical knowledge (Ladd 1993). Ladd suggested that morality itself, was not a matter of empirical knowledge, and therefore must be excluded as irrelevant in the decision-making framework. Morality would then enter only indirectly into practical reasoning as a form of opinion, referred to by Austin (1975) as positive morality: the laws and customs, religious beliefs and practices of the society in which the organisation operated. The relevance of such factors to decision making would be entirely dependent on how they affected the efficiency of the organisation's operations. This would suggest that an organisation ought not to consider moral dimensions as anything other than data designed to achieve its ends Ladd concurred, and suggested that the only time moral aspects should be considered was when they affected the organisation's ability to achieve its goals (Donaldson 1989).

This concept is also akin to the notion of structural restraint, where organisations are seen as purposeful entities but nevertheless limited by their structures, because their policies, procedures, grouping strategies and reporting mechanisms are all geared towards rationally achieving particular sets of goals. They can only act in accordance with their structures, which are goal directed and incapable of accommodating moral motives (Donaldson 1989). Because organisations are restrained by their structures, they cannot be considered to be moral agents.

As Gailbraith pointed out, although the stated goals of many organisations are said to be the maximisation of profits, their actual operative goals are the securing of their own survival, autonomy and economic growth (cited in Child 1986). This is consistent with the *multiple goal* approach to effectiveness measurement as

identified by Cameron (1980). The recognition of the subordination of goals as a consequence of power plays within the organisation means that organisations deliberately construct and reconstruct themselves in order to seek specific goals. Organisational values then become the key that drives decision-makers. This outcome has been described by various organisational theorists, such as Child (1984), Dessler (1986) and Robey & Sales (1994) as the concept of *dominant coalitions*. Bolman and Deal (1997) also referred to organisations in terms of a political framework. They have suggested that organisations need to be examined from the perspective of the political influence of groups within the organisation, and how such groups can affect the goals and decision making of the organisation. This argument opposes the basis of the structural restraint view, namely that organisations are limited to actions that are solely related to goal maximisation.

If the condition of rationality is accepted, then it appears that managerial decisions would take their ethical premise from the objectives that have been set for the organisation. Hence any considerations not related to the aims or goals of the organisations would be automatically excluded as irrelevant to the decision-making process. This suggests that organisations would only consider introducing ethical systems under two conditions; where ethics or ethical behaviour was a clear organisational objective, or where the introduction of an ethical system enhanced an organisation's ability to achieve its goals. Conversely, the systems would be removed if they were shown to retard goal attainment.

Daft and Steers (1986) suggested that managers in organisations typically work in environments that are complex, and operate under the pressures of time and frequent interruptions. It would not be logical or practical for managers to spend a large amount of time defining and diagnosing problems, systematically analysing data, designing alternatives and then calculating the effectiveness of decisions based on specific decision criteria. March and Simon (1958) introduced the concept of *bounded rationality* to explain how managers cope with the complexity of organisations realistically. The concept of bounded rationality is that people have limits or boundaries on how rational they can or will be. People necessarily simplify problem situations (Child 1986). The bounded rationality model assumes that managers are deliberately rational, which means that they try to make good decisions; however, the ideal rational model can only be applied using clear and

programmed decision processes. Strategic and other non-programmed problems are not amenable to comprehensive analysis (Daft & Steers 1986).

The bounded rationality model has certain assumptions that deviate from the ideal model of decision-making

- Because non-programme problems are complex, only small parts can be dealt with at any one time. Thus organisations typically divide problems into parts that can be handled in succession, or in separate departments. In this way adequate information and analysis can be accomplished for smaller problems at lower cost (Daft & Steers 1986).
- The search for solutions causes managers to search for alternatives where they have had prior success. Managers will seek a solution similar to previous ones used, in order to solve similar problems. Managers seek to find a solution quickly rather than evaluate all possible alternatives (Daft & Steers 1986).
- Managers settle for satisfactory rather than optimal solutions (Daft & Steers 1986).

Jones (2004) has termed this last characteristic of organisational problem solving as *satisficing*. He described it as the adoption of a solution to problems with the first alternative that satisfies the decision criteria, but at a minimum rather than an optimal level. According to Child (1986), this is best understood as a structural problem, hence organisations consciously develop policies and procedures that attempt to direct decision-making to minimise sub-optimal decisions. This could be seen as an attempt by the organisation to ensure moral outcomes. Again this highlights the relationship between the choices in design of centralisation, levels of formalisation and the arguments put forward concerning moral responsibility.

The concept that decision-making should be rational, systematic and considered, has been based on the notion that people strive to be economically efficient and maximise goal achievement. Economic rationality means that people attempt to maximise their advantage objectively, such as in gaining money or the level of goods and services obtained in production. People try to identify and then select the

course of action that has the greatest advantage. This framework has sometimes been referred to as the *economic man* model of decision-making (Daft & Steers 1986), which parallels the concept of *utilitarianism*, or the notion of man as a rational maximiser, as described by Bentham and Stuart-Mill (cited in Buchholz 1989). Drucker suggested that managers could lighten the burden of decision-making if they adopted a rational and systematic process that included a sequence of steps: defining the problem and expectations, developing alternative solutions and knowing what to do after the decision has been reached (Daft & Steers 1986). However, , not all employees or agents have the ability or authority to engage in such a methodology. The level of discretion in making part or all of a decision in the interests of the organisation depends on the manager's position within the hierarchy of the organisation. This is the structural concept of centralisation and formalisation, previously referred to in Section 3.1.

Accepting the argument for rationality, as a limitation on the moral responsibility of organisations, does not mean that organisations would not consider establishing an ethics system. It suggests that an organisation would only ever consider devising an ethical system, including codes of ethics and training individuals if by doing so it directly enhanced the attainment of organisational goals. If this were the case, it could then be argued that the rational model required the organisation to design an ethics system that was 'in-fit' with its organisational structure. This is consistent with Mintzberg's concept of *organisational fit*, and discussed in greater depth later in this chapter (Mintzberg 1981, 1983, 1998). In other words, it would be irrational to design an ineffective system, as this would most likely lead to problems within the organisation and jeopardise the attainment of its stated goals.

3.3 The Organisation as a Machine

Formal organisation structure, with its design components of centralisation, complexity and formalisation, has also been used to describe the nature of the collective entity, the organisation, as an artificial construct (Robbins 1990). One of the major arguments against organisational moral responsibility has been based on the concept that, because of the constructed nature of organisations, their characteristics are more consistent with those of machines than those of persons. It has been suggested that an organisation is like a machine, composed of parts which

can be unrelated and often operate independently of each other, but which achieve synergy when they work together effectively.

Ladd (1993) suggested that because of this similarity to machines, an organisation's single purpose prohibited any ability to engage in actions other than those consistent with that purpose. As such he suggested that it is impossible for organisations to make moral agreements or compacts, as they are incapable of moral relations. A compact is a bilateral promise and hence a compact can be made only between beings that are capable of making promises. A formal organisation is thus unable to make promises, because it cannot commit itself to a performance, or course of action, that might conflict with the pursuit of its goal. The principle of rationality, when applied to formal organisations, makes no allowance for the principle that promises ought to be kept. In fact, if the keeping of promises were contrary to the goals of the organisation, rationality would require that the promises be broken (Danielson 1995). Thus Ladd (1993) maintained that organisations, as machines, are incapable of moral constraint.

However, Donaldson (1989) proposed that it is necessary to view corporations as more than just machines. To be a moral agent an entity must have reasons for what it does, and some of those reasons need to be moral ones. This is consistent with the concept of *purposefulness*, which Aristotle maintained should be the basis for ethical action (Solomon 1992). Given the proper structure, organisations can be held morally accountable and should be held morally accountable for their behaviour and be made to stipulate the moral reason that prompted their behaviour. Thus the concept of organisational structure (the conscious decisions made by organisations with regards to hierarchy, responsibility, accountability, communication lines and other design variables) can be identified as the means by which organisations can engage in moral actions and thus be accountable for those actions.

3.3.1 The Organisation as a Moral Person

The basis of the moral person viewpoint involves the issue of intent. An agent is defined as an entity that behaves intentionally (Donaldson 1989). Although this thesis is not concerned with the concept of the moral person, as applied to individuals, it does have relevance when considering whether the organisation, as a

legal entity, should be seen as having moral responsibility. Robbins (1990) has identified organisations as consciously coordinated entities, which suggests that organisations behave intentionally. They have distinct goals and objectives, engage in behaviour directed to achieving them, and can be considered to be moral agents. According to French (1979) there are different notions as to what constitutes personhood, based on Locke's account of personal identity. His concept of *personhood* embodies conscious actions that have merit, and thus only belong to intelligent agents capable of lawful or illegal acts. Conscious persons have memory and are capable of extending themselves into the past, and thereby become concerned and accountable for their actions. However, this is a limited concept that can fail to establish moral responsibility adequately in some cases. For example, a deceased person possesses certain legal rights such as to have his or her will executed. Yet deceased persons cannot be defined as moral agents because they cannot be held accountable for anything. It has previously been mentioned in this chapter that organisations are said to change their structures consciously, so as to achieve their organisational goals more effectively (Daft 2001). Organisations with a stated purpose consciously change their structures, based in part on past decisions. They appear to satisfy French's interpretation of Locke's conditions of personhood and therefore can be considered as moral (French 1979).

In order for organisations to be considered as moral agents, they must also satisfy the definition of agency; that is, being capable of performing intentional actions (Donaldson 1989). The *moral person* viewpoint typically uses the internal decision making structure of an organisation to demonstrate intent. Every organisation has a responsibility and accountability system, whether formalised as part of its structure or not.

The procedure for recognising decisions is of two principal kinds: rules for decision-making and the basic belief and policies of the organisation. These latter types involve the use of deliberation and reason. Again it suggests that a structured and considered approach should be applied to decision-making, and that there is consciousness and purpose through organisational values and mission. Rules and policies are examples of formalisation, while decision making is related to centralisation, two of the structural variables identified by Daft (2001); Hatch (1997) and Robbins (1990). The basic belief or ideology of the organisation has been

identified by numerous authors as *organisational culture*. Mintzberg (1998) stated that ideology represented the belief and values of organisational members, which can be standardised and used as a form of behavioural control. This indicates that much of the discussion concerning the *moral person* view of organisations is actually structural theory that specifically addresses centralisation and formalisation as related to decision making, ideology and culture, previously identified in this chapter as key structural variables.

3.3.2 Problems with the Moral Person View

Donaldson (1989) acknowledged that organisations comprise rules, policies procedures and power coalitions; however, he suggested that it is not possible to determine what these combined rules, policies and other organisational systems in themselves intend. Intention in itself does not constitute moral agency. It is incorrect to suggest that whatever an organisation does it necessarily intended to do. Different members of the organisation may have very different perceptions of the function and purpose of the organisation. A manager may view the purpose as maximising profits; others as providing a salary, a community service or a quality product. This suggests that organisational members may differently interpret the purpose of introducing an ethics system, with decision-making guidelines, codes, training regimes and other support mechanisms. Donaldson (1989) referred to this as the difficulty of establishing the locus of intentions. The moral person view assumes that anything that can behave intentionally is a moral agent. This is problematic when we consider that other beings, and non-persons such as animals, machines and artificial intelligences, can also be said to act with intent; however, they would not be credited as moral agents.

Danielson (1995) pointed out that while organisations may parallel machines in so far as their symmetry is concerned (many parts working to achieve unity of effort), it appears that intent alone cannot be used as the sole determinant of moral agency. Machines are physical objects, with mechanical parts that work together in symmetry, but do not function if removed from the whole. For example, a mechanical gearbox or differential does not function unless it remains as part of the whole machine. Yet an IT department in an organisation, similarly part of a whole, like the machine part, can and does function separately. Child (1986); Daft (2001);

Hatch (1996); Robey and Sales (1986) and Mintzberg (1998) have all identified that a specific advantage of diversified structures is their ability to establish within an organisation self-contained entities that can be separated as and when required. In this way large diversified structures do not conform to the argument that organisations, if considered to be machines, are incapable of moral action. Machines also require humans to activate and direct them. Consider a motor vehicle, which requires a human driver to operate and steer the car. Organisations have been shown to act without necessarily having defined operations or strategy. Child (1986) identified a tendency for over-tall bureaucratic structures to create unnecessary work within the organisation. This suggests that, unlike machines that have no innate purpose, such as the organisational goals of achieving sales or market growth, organisations possess the ability to create their own purpose and act on that purpose.

Child (1986) has identified one of the principal problems within organisational structures to be the translation of goals and objectives down the hierarchy to middle management and line managers. The problem is twofold. Firstly the implementation of strategic plans is problematic. Cameron (1980) identified that, more often than not, organisational goals are unclear and poorly defined. Evaluating organisational performance, based on this perception, is clearly limited. Secondly, as identified by Child (1986), increased vertical complexity (hierarchical levels within an organisation) adds to communication problems, such as in the interpretation of strategic plans. This conclusion has also been identified by Peter Blau of the Aston group, as a result of research into large organisation structures in the United Kingdom during the late 1960s (Child 1984).

3.3.3 The Moral Person View and Responsibility

If organisations are to be seen as persons then they should have the same rights and benefits as well as the same moral responsibilities as persons. Organisations can be afforded some of the same rights as people, such as the right to own property and enter into agreements, the right to sue and the right to privacy. They do not, however, have all the rights of people. For example, organisations do not have the right to social security or the right to vote in government elections. Many personal rights seem logically impossible to attribute to an organisation. Such beliefs are held

by some to show that organisations fail to qualify as moral persons (Donaldson 1989).

There are also several other key areas of the *moral person* viewpoint of organisations that can be challenged. The argument that it is difficult to establish the locus of intent could be due to the organisation itself if it has not clarified its purpose to its agents through appropriate mission statements and internal procedures, such as orientation programs and clear job descriptions, or if it has hired ineffective and incompetent agents. These factors were identified as critical strategies in the development of ethical systems. A person who claims to be skilled in a particular discipline, when they are not, can be regarded as a fraud or an incompetent. It is suggested that one cannot diminish the overall responsibility of the organisation, due to its failure to inform and educate its agents in the performance of their duties. It can also be argued that this is similar to negligence or incompetence on the part of an individual. Many organisations have mission statements or goal statements that serve the purpose of defining the organisation's reason for existence. A failure to adequately convey these statements to organisational members may be either a case of poor communication or a poor internal strategy. However, it should not be interpreted as an example of mitigating factors that limit the moral responsibility of an organisation. As moral responsibility and accountability are recognised as applying to the individual, they should also be applicable to organisations. In terms of rights, whilst it is correct to say that organisations do not have the right to vote, they do engage in the political process, such as through donations to political parties designed to advance their own interests. In addition, they often receive financial grants from governments; in some cases directly as cash benefits, but more often through tax concessions, rebates and other forms of assistance. Thus it can be seen that rights are exercised, although in a different fashion from individuals.

3.4 Internal Decision Making Structure and Morality

Organisations can be viewed as having a moral dimension. They employ corporate internal decision structures (CIDs) that parallel the decision-making structures of individuals. CIDs become the policies and procedures for accomplishing specific tasks and goals, lines of authority and the conditions in which people's actions become official corporate actions (Shaw & Barry 1998). These factors have been

identified earlier as categories of formalisation. CIDs depend upon data from both the internal and external environment about the actual and possible impact of organisational actions. They monitor work conditions, employee efficiency and productivity. Such information can then be assessed in a rational manner before a decision is taken. Goodpaster and Matthews (1982) argued that, as a result, there is no reason why organisations cannot show the same kind of rationality and respect for persons that individual human beings can and do when making relevant decisions. Donaldson (1989) agreed, suggesting that a corporation can be a moral agent if moral reasoning enters into its decision-making procedure. A morally justifiable decision-making process will then control the company's actions, as well as its structure of policies and rules (Shaw & Barry 1998).

French (1979) argued that CIDs incorporate the intent and actions of individual persons into the organisation's decision-making process. While no individual may have pursued a particular course of action charted by the CID, the organisation did. This constitutes the basis of making corporate acts intentional, and thus morally responsible. Danielson (1995) concurred, referring to the system of policies and procedures, which constitute the decision-making system of an organisation, as a form of constraint. This constraint can be considered a form of artificial morality, which makes the organisation accountable for its decisions, resulting actions and outcomes. This is consistent with the concepts of bounded rationality and satisficing identified earlier in this chapter. As Robbins (1990) pointed out, formalisation (or rules, policies and procedures) is a key element of organisational structure and design. The purpose of formalisation is to modify the behaviour of organisational members to be consistent with organisational goals and objectives. Thus formalisation becomes a part of the decision-making structures and accountability systems of organisations. The development of accountability systems must therefore be consistent with the structural configuration of the organisation. Approaches to organisational ethics typically involve the use of rules and policies, in the form of codes of conduct and codes of ethics that can either provide guidance or be part of the formal decision-making system. This suggests that ethical systems should be considered as part of the corporate internal decision-making system (CID), consistent with Danielson's concept of artificial morality. He argued that instrumentally rational agents must be capable of morality, and able to constrain their actions for the sake of benefits shared with others. Organisations need to be

able to discriminate between co-operators and those that would exploit cooperative constraint. Danielson suggested that this can be achieved through formalisation, that is rules, policies and procedures, which commit and hence constrain the organisation to a set of principles, such as transparency, sourcing alternative quotations, independent audits, justification and community principles (Danielson 1995).

3.4.1 Centralisation and Decision Making

The concepts of *centralisation* and *decentralisation* have been defined as the extent to which power rests in a single point in an organisation, or the extent to which that power is disbursed among a number of organisational members (Mintzberg1998 and Robbins 1990). Mintzberg (1981) differentiated between *vertical centralisation*, being the delegation of formal decision-making power from senior management to line managers in a hierarchical fashion, and *horizontal decentralisation*, which is the extent to which formal or informal power is dispersed across the hierarchy to non managers, such as analysts and support staff. As previously identified, centralisation has a direct influence on the nature of the decision-making systems employed within the organisation. Danielson (1995); Donaldson (1989) and French (1993) acknowledged the role of decision-making systems, and the power of individuals to make decisions, as fundamental to whether an organisation can have moral accountability. It seems logical to suggest that different levels of centralisation would impact upon the types of ethical systems introduced into organisations. Mintzberg (1981, 1983) identified four forms of decentralisation and centralisation relevant to large organisations.

- *vertical and horizontal centralisation*, which occurs when all the power in the organisation is held in strategic apex or executive level. High levels of formalisation and little discretion lower down the hierarchy would most likely support this situation. General compliance with the decisions of the strategic apex would be a feature of such organisations.
- *limited horizontal decentralisation*, which exists where the strategic apex shares some of its power with those staff responsible for developing policies and procedures that standardize the work of the remaining staff. This group is referred to as the technostructure. This type of organisation would be

similar to the highly centralised structure described above and characterised by moderate to high levels of formalisation and compliance.

- *limited vertical decentralisation* exists where managers of single groups or units are delegated the power to control most of the decisions concerning their units. Such structures are accompanied by limited decentralisation with moderate levels of control. Discretion is increased in the middle line levels but with the actions of subordinate staff being characterised as compliance.
- *vertical decentralisation*. Here power is delegated to operating staff to make decisions. Low levels of formalisation allow for greater levels of discretion that makes strict compliance strategies relatively ineffective.

The design of any ethical policy must allow for the type of discretion levels that are present in the organisation. In order to ensure consistency, the design of the ethical system also needs to take into account the types and levels of centralisation. Most of the approaches to organisational ethics either fall into the category of compliance approaches that are consistent with mechanistic structures, or integrity approaches which are more consistent with organic structures. However, as indicated in Mintzberg's discussion of centralisation, more than two structural forms exist. This means that, in order to establish a more effective organisational ethical system, the extent of centralisation needs to be taken into account.

3.5 Structural Changes and Moral Consciousness

Cameron (1980) recognised that organisations change their structures in order to improve their effectiveness. Child (1986); Daft (2001); Hatch (1996) and Robbins (1990) suggested that organisations respond to various contingencies, such as the external environment, technology systems, or changing internal power relations, and this is most commonly reflected in changes to organisational strategy.

Mintzberg (1981, 1983) has suggested that effective organisations achieve coherence amongst their component parts and that they do not change one part without considering the consequences to all others. As outlined by Daft (2001), organisations as diverse as churches, hospitals and large computer companies all have

characteristics in common. It is therefore possible to identify organisations that have different purposes, yet seem to have similar structures. This is also consistent with findings that although different approaches to developing or implementing ethical systems exist, such systems share many common strategies.

Lawrence and Lorsch (1967) found that the most successful firms adapted their internal structures to suit the demands of information processing imposed by the external environment in which the organisation operated. They found that a condition of good performance was the achievement of an adequate level of integration, more difficult to reach in highly differentiated organisations (Child 1984). According to Child, the design of organisations is one of the major priorities of management. Strategies for enculturating ethics are in fact structural variables, such as formalisation, orientation and training. This suggests that organisations need to adapt strategies that create ethical cultures, consistent with their structures, as they change to fit a changing environment.

Accepting that organisations change their overall structure through changes in aspects of centralisation, complexity and levels of formalisation, it appears that any attempt to influence the ethical behaviour of organisational members must also be considered as an element of organisational structure. A greater understanding of structural variables--the different structural forms that result and the impact of these on an ethical system--need to be examined as part of any analysis of organisational ethical effectiveness. Given this basic premise, it becomes the responsibility of managers to design organisations through a contingency approach, appropriate to the external environment in which an organisation finds itself. Consideration will need to be given to such organisational components as size, strategy, and technology. It therefore seems appropriate that the design of any ethical system should be considered as part of an organisation's structure.

As the discussion above has highlighted, levels of discretion and decision making systems, organisational culture (or values) and the creation of policy and procedures have been used to argue in favour of organisational, moral responsibility. The review of ethical literature demonstrated that the use of codes of ethics and codes of conduct, supported by training and development, are the primary mechanisms for the development of an ethical culture. These mechanisms have structural dimensions

that can be predominantly categorised as formalisation. However as the discussion indicated, formalisation occurs at different organisational levels, and is related to other structural variables. In order to establish how to develop an ethical culture, the structural nature of the organisation needs to be determined. As Mintzberg (1981) suggested, appropriate structure becomes an issue of fit.

3.6 Dimensions of Organisation Design

Structural dimensions can be described as the internal characteristics or components that can be used to compare different organisations (Daft 2001). Contextual dimensions, which characterize organisations, include size, technology, environment and mission or values. They describe the organisational context that influences and shapes the structural dimensions. Child (1986) referred to these as imperatives; however, he also included organisational strategy as an imperative with these contextual dimensions. According to Daft (2001), in order to understand and evaluate organisations, both the structural and contextual dimensions need examination. Bedeian and Zammuto (1991); Daft (2001); Mintzberg (1983) and Robbins (1990) all agreed that there are common elements for structural dimensions. These include formalisation, specialisation, issues related to complexity, such as the degree of vertical and horizontal differentiation, and centralisation. These have been identified as the basic components of organisational structure.

3.6.1 Formalisation and Behavioural Control

Hatch (1997); Daft (2001) and Robbins (1990) have identified formalisation as the extent to which written control documentation pervades the organisation. This includes procedures, job descriptions, policies and regulations. Such documents describe and prescribe the behaviour and activities that are acceptable in the organisation. Hatch (1997) suggested that formalisation tends to reduce the amount of discretion employees have in performing their work duties, while at the same time increasing the level of control that management has over these employees. Robbins (1990) identified that the purpose of formalisation is to ensure behavioural consistency.

Paine's (1994) dual approach to ethical systems included the use of formal written codes of ethics or conduct as the basis for defining acceptable standards in an organisation. Such codes necessarily fall into the category of formalisation. A fundamental relationship existing between the type of structure in the organisation and its level of formalisation is acknowledged in organisational theory. Generally speaking, the larger or more bureaucratic the organisation, the greater the use of formalisation as a means of regulating employee behaviour (Child 1984; Robbins 1990). Therefore, as organisations increase their degree of formalisation, the ethical system, and in particular its written components, should also include greater levels of detail.

Child (1984) noted that as an organisation grows, centralised control becomes less and less effective, and requires formalisation to assist in controlling and co-ordinating the work of the organisation. Mintzberg (1983) concurred, describing how organisations seek to establish a framework of rules and systems within which decision-making can be delegated with reasonably predictable results. It has been found that large organisations, which use delegation and formalisation as a strategy of control, tend to perform better in financial outcomes than equally large, more centralised, less formalised companies (Child 1984). The same logic can also be applied to the ethical dilemmas encountered by organisational members. As an organisation grows and becomes more complex it is likely to be faced by increasingly complex ethical dilemmas. If this is the case, then the same approach--increasing the use of control mechanisms, as a means of ensuring predictable behaviour--should also apply to the ethical decisions made by employees; that is, control mechanisms can attain predictability by the use of rules and regulations, including appropriate ethical standards. This suggests that as organisations move towards greater bureaucracy, they need to develop rules, policies and procedures that define the standards of conduct expected of their employees. As an organisation's level of centralisation and complexity changes, as reflected in Mintzberg's professional and diversified organisational types, so too the content of rules and policies regarding ethical conduct would alter to reflect changes in structural configuration. This is the concept of *organisational fit* described by Mintzberg, and a principal argument of this thesis that ethical systems must change to reflect different internal structural characteristics of organisations (Mintzberg 1998).

Robbins (1990) described formalisation as the degree to which jobs within the organisation are standardised. In a highly formalised organisation an individual has a minimum amount of discretion over what, when and how things are to be done. Employees confronted by similar problems can then be expected to respond in similar ways with consistency in their results. Where formalisation is low employee behaviour would tend to be non-routine, offering a greater degree of decision-making freedom. The degree of formalisation then becomes a measure of standardisation. The greater the standardisation through formalisation in an organisation, the less discretion individuals have. Essentially the use of high levels of formalisation eliminates employees developing alternate problem solutions, by removing the need for employees to consider such alternatives (Child 1986). This is consistent with a compliance-based approach where codes of conduct provide specific details regarding which behaviours are acceptable and which are not. This is also an example of the use of corporate internal decision making systems identified by Danielson (1995) as a means of developing moral responsibility within an organisation.

According to Daft (2001) and Robbins (1990) organisational positions that are simplest are most amenable to high degrees of formalisation. The greater the professionalisation of the work, the less likely it is to be formalised. This is also consistent with the findings which linked compliance approaches to more mechanistic structures, and integrity or aspirational approaches to organisations with greater levels of discretion; however, Paine's typology was also shown not to provide guidance on the differing levels of regulation versus aspiration or increasing discretion, seen to exist in the different structures, as classified by Mintzberg (1998). Not only does formalisation differ according to the nature of the job in question, but also the hierarchical level in the organisation under consideration, and the nature of the grouping strategy used. This suggests that the development of an ethics code, or formalised approach to ethical behaviour, would need differing detail and discretion levels to be consistent with the existing formalisation levels in an organisation.

However, formalisation is not necessarily restricted to being an internal process, as professionalisation creates internalised behavioural controls through social specialisation. Professionals undergo many years of education and training before they practise their craft; engineers, accountants and marketing specialists are

examples of such professions (Robbins 1990). They are essentially socialised before entering an organisation; in other words, they are pre-programmed before employment and have their rules already built-in. This is a concept that Mintzberg (1998) has identified as critical, in particular for the type of organisation structure termed the professional organisation. Where professionalisation is used to replace levels of formalisation, the type and style of the ethics system would need to reflect this level of professionalism and be less reliant on a compliance-based approach.

3.6.2 Formalisation Techniques

There are a number of techniques that can be used by organisations to formalise or standardise individual behaviour. Many of these techniques have been identified as fundamental to implementing effective ethical systems.

3.6.2.1 Employee Selection

Organisations usually go through a careful process when selecting employees. Job applicants are assessed against a well-defined set of criteria, which reflect not only the required knowledge for a particular position, but also the desired behavioural traits of future members of the organisation. Nankervis, Compton and McCarthy (1996) recognised that staff selection needs to be based on clearly defined selection criteria, derived from job and position descriptions, both examples of formalisation. The objective of the selection process is then to achieve the best fit between the skills and aptitudes of the potential employee and the vacant job position in the organisation (Schuler, Dowling & Smart 1988). Selection can be seen as one method by which organisations control individual discretion. Child (1986); Daft (2001) and Daft & Steers (1986) have identified selection processes as a form of managerial control, critical to the establishment of organisational culture. Vidaver-Cohen (1998) identified moral climate as a particular measure of organisational culture and a major factor in determining ethical behaviour. Therefore staff selection is not only part of formalisation, and a structural variable, but it becomes an important strategy to establish and maintain ethical culture.

3.6.2.2 Role Requirements

Individuals in organisations undertake various roles carrying expectations of how the job incumbent is expected to behave in the organisation. Specific strategies, such as job analysis and design, specify employee behaviour within a particular context. Thus role expectations act as a major factor in the regulation of employee behaviour (Schuler, Randall & Smart 1988). If an organisation expects individuals to behave ethically, then such behaviours need to be part of official role requirements. This is a critical concept with respect to rewarding preferred behaviour.

3.6.2.3 Rules, Policies and Procedures

Perhaps the most common method of formalisation is that characterised by rules, policies and procedures. Rules are explicit statements that inform an employee what and what not to do. A characteristic of rules is that they allow little or no employee discretion. They usually state a clear and specific required behaviour. In this way rules standardise and control individual behaviour (Robbins 1990). Procedures standardise the work process by the establishment of a series of interrelated sequential steps which employees are expected to follow. Their objective is to establish a particular method of undertaking a series of tasks, so that each time an employee or group of employees encounters a similar problem, it will be dealt with in the same way, and thus generate a similar and predictable outcome. Procedures therefore standardise and control behaviour by the way in which they standardise the work process (Robbins 1990). Policies are guidelines that establish constraints on the decisions employees make. Therefore rules, policies and procedures represent techniques that organisations use to regulate the behaviour of their members (Robbins 1990). Policies and guidelines provide greater flexibility than rules by not specifying precise behaviour; instead they allow employees some degree of discretion but within boundaries, usually referred to as guidelines. Policies tend to be more general, as they seek to cover a range of possible behaviours or situations, providing guidance on the limits of individual discretion. Again, behaviour is controlled, although less so than through rules or procedures (Robbins 1990).

3.6.2.4 Formalisation and Ethical Policies

Using rules, policies and procedures as a framework, it is possible to differentiate between the various ethical policies that an organisation may use. Codes of conduct have been identified as explicit statements of what is and what is not acceptable behaviour. This seems consistent with the concept of rules, as described by Robbins (1990). The more detailed codes include, not only descriptions of what behaviours are acceptable or unacceptable, but also the steps required to report or record ethical decisions. This appears consistent with a description of procedures, and also the concept of corporate internal decision making systems, identified by Danielson (1995).

Policies also seem more consistent with the concept of codes of ethics (Robbins 1990). These have been identified as statements that seek to guide behaviour, by providing employees with greater levels of discretion in resolving ethical dilemmas. From the above discussion it is proposed that ethical policy, as described in much of the ethical literature, is indeed a structural variable. Therefore as different organisational structures are characterised by different levels of formalisation, so too should the ethical policies or rules vary in different organisational structures.

3.6.2.5 Training and Behavioural Control

Mintzberg (1998) suggested that training represents formal instruction programs, designed to establish and standardise behaviour with respect to the skills and knowledge required to do particular jobs in organisations. They identified training as a key organisational design parameter, particularly for work that is termed *professional*. Training and formalisation are essentially substitutes for the standardisation of norms. In more bureaucratic organisations, required behaviours are imposed on the job as rules or regulations, while in more professional organisations standards are learned as skills. This is akin to the concept of *professionalism* as identified by Child (1986) and Robbins (1990) as discussed in section 3.6.1 above.

Mintzberg (1985) also identified training or indoctrination as organisational tools, including programs and techniques by which the norms and / or culture of an

organisation could be standardised. He suggested that indoctrination could also be used as a substitute for formalisation as well as for skill training. In this case the standards required by the organisation become internalised as deeply rooted beliefs. Ethics communication and enculturation strategies rely heavily on training. Child (1986); Daft (2001); Hatch (1997); Mintzberg (1981, 1983) and Robbins (1990) all demonstrated that organisational culture could be used to supplement levels of formalisation. This suggests that not only will the extent of written ethical policies differ in different structures, but that the types of training and strategies used to create culture (and thus ethical culture) must also be considered as a structural issue. Ethical behaviour can then be established as part of the organisation's ideology or culture through appropriate indoctrination programs. Brown (1998); Child (1984, 1986) and Daft (2001) identified such specific strategies as cultural control mechanisms. Organisations that utilise culture or ideology as a form of control or coordination would need to consider compatible strategies for the enculturation of ethical standards. This is consistent with the integrity approach (Paine 1994) as being more appropriate for professional organisations, where higher discretion levels mitigate the use of compliance strategies. This is also supported by Francis (2000) and Preston (1996), who identified professionals, within professional type organisations, as requiring greater discretion levels and therefore a predisposition towards codes of ethics instead of codes of conduct.

3.7 Types of Ethical Cultures

Organisational climate, and its impact upon the decisions made by employees, displays another perspective of moral responsibility. Formalisation, as acknowledged by Child (1986); Daft (2001) and Schein (1997) is a method of behavioural control and a key factor in the development of organisational culture. Structural characteristics help to establish the moral climate or moral atmosphere in which agents make their decisions. Moral climate has been defined as the prevailing employee perception of organisational signals, regarding the accepted norms for making decisions with a moral component. The standards for ethical or socially responsible conduct are not only embodied within the employee, and often then attributed to individual differences, but are similarly embedded within the organisation through its design choices (Daft 1998; Vidaver-Cohen 1998). Organisational culture, as represented by rituals, ceremonies, formal stories and

organisational symbols, is seen as a key factor, influencing decision-making within the organisations. Organisational culture shapes the framework of values within the organisation; moreover, formal organisational systems influence individual values and behaviours according to an organisation's policy framework and reward systems (Daft 1998; Schein 1997).

Kohlberg's research on the effects of perceived norms for moral reasoning, moral atmosphere and behaviour within a given social setting, supported the notion of greater levels of formalisation as a basis for encouraging more ethical decision making. Kohlberg's *Just Community* experiments revealed that changing the level and nature of formalisation within organisations could create a positive moral atmosphere, providing the context for improvements in individual moral development and moral judgement, as well as reduced cheating, stealing and similar anti-social acts (Kohlberg 1984). There have been a number of examples of the positive results from a moral climate within American corporations, such as Johnson and Johnson, Merck and IBM, which attest to the value of creating a positive moral atmosphere to encourage ethical behaviour and maintain a firm's reputation. Conversely, unethical and criminal conduct in business firms can also be traced to the organisational environment; for example, the New South Wales Road Traffic Authority's internal memo directing employees to lie to motorists about renewals (Whelan 1995), B.E Goodrich's sale of defective airplane parts, or Dow Corning's manufacture and sale of silicone breast implants and their later withholding of questionable laboratory findings to the US drug testing authorities, despite a code of conduct being in place. These cases illustrate, in different ways, attitudes of disregard for both legitimate procedures and potentially harmful consequences, as well as a sense among employees that the way organisational practices and policies were implemented signaled little managerial concern about the need to do the right thing (Vidaver-Cohen 1998).

A basic principle of Mintzberg's structural theory is the notion of 'fit' between factors, such as the external environment and the resulting organisational structure. Mintzberg identified that culture can play a critical role as a behavioural modifier within organisations. The type of culture that exists therefore needs to be consistent with the type of structure, to achieve cultural strength. McKenna (1999) has suggested a direct relationship between organisational culture and organisational

structure, consistent with Daft (1998, 2001); Brown (1998) Mintzberg (1981) and Schein (1997). He also suggested that recognising dominant sources or influences on an organisation's culture enables a contingency approach to be used. This creates a description of the set of ideal characteristics of a particular culture, and “how these cultures work and how they fit with the organisational structure and systems” (McKenna, 1999, pp 333). Several cultural typologies have been proposed that seek to identify internal characteristics of organisations (Daft 1998; Deal & Kennedy 1982 and Handy 1993). Brown (2000) identified four cultural types that can be directly linked to appropriate structures. His model, set out below, allows the alignment of culture with structure consistent with Mintzberg’s notion of organisational fit.

3.7.1 The Mission Culture

The mission culture is typified by an emphasis on a clear vision of the organisation’s purpose and the attainment of its goals. Organisational members are focused on performance and are usually rewarded handsomely for success. Daft (2001) suggested that organisations with a strong customer focus, but without the need for rapid change, would develop such a culture.

3.7.2 The Clan Culture

The clan culture emphasises internal processes, such as participation and employee involvement, that create a sense of responsibility, ownership of decisions and thus greater commitment to the organisation. This would most likely be found in structures with higher degrees of autonomy, and changing but unthreatening environments (Brown 2000). Professional organisations, such as described by Mintzberg (1998), where formalisation is moderate and autonomy is high at the operating core, would most likely have this type of culture.

3.7.3 The Bureaucratic Culture

Similarly to the clan culture, the bureaucratic culture has an internal focus; however its emphasis is on achieving consistency and stability. This type of culture supports a methodical way of completing the work of the organisation. The emphasis is on

following procedure and practices with symbols, rituals and heroes reinforcing the basic strategy. Efficiency and consistency are the objectives of this culture (Brown, 2000). It would most likely be found in mechanistic structures where formalisation is high and routine is the norm, such as the machine organisation (Mintzberg 1998).

3.7.4 The Entrepreneurial Culture

The entrepreneurial culture is characterised by a focus on the external environment, with an ability to adapt and change to meet external needs. The culture supports norms and beliefs that encourage environmental scanning so as to detect trends and changes. Innovation, creativity and risk-taking are valued and rewarded. (Brown, 2000). Such cultures are consistent with the entrepreneurial and innovative organisational structures (Mintzberg 1998).

3.7.5 Norms as Prime Coordinating Mechanisms

Mintzberg (1998) identified that norms are the prime coordinating mechanism in certain structures, and are more influential on behaviour than formal policies and procedures. This can be defined as the way moral decisions are to be addressed within the corporation. As previously noted, the organisation establishes its expectations regarding such norms, through practices and procedures that communicate managerial expectations about moral decision-making to employees. Prevailing employee perceptions of these signals refer to the general agreements among members of the corporation about what organisational practices and procedures actually mean in terms of expected behaviour (Ferrell, Fraedrich & Ferrell 2000).

The reliance on organisational culture, as a prime source for directing employee ethical behaviour, should only occur when the collective beliefs and values of organisational members are strong enough to act as a controller of behaviour. Mintzberg (1998) referred to this as standardisation through norms. He identified three different structures or configurations where such standardisation occurs: the adhocracy, the missionary and the professional organisation. This suggests that Paine's *integrity* approach would be more appropriate for such structures. Yet, as

seen below, differences do exist between these structures, and so the ethical system needs to be modified to ensure structural fit.

3.8 Grouping Strategy

Grouping strategy has been defined as the basis upon which people are brought together into units. Grouping encourages coordination by pushing people together under common supervision, requiring them to share results and facilitate mutual adjustment due to their proximity. Daft (2001) describes this process as departmentation. Child (1986) has identified four basic strategies for grouping: shared expertise or function, a production process, geography or people who share a common time line. Daft and Steers (1986) provided an overview of common grouping approaches:

- *functional grouping strategy*, where people are grouped together on the basis of a shared common knowledge or function; for example, marketing, sales or finance. This is the common form of organisation for the more mechanistic structures.
- *single unit-grouping strategy*, where all required personnel are brought together in one single unit, either on the basis of products or geographic location.

The choice of grouping strategies has implication for the design and implementation of organisational ethical systems. Strategies such as functional and single unit grouping encourage norms to developed that promote group interest above organisational.

Daft and Steers (1986) established a relationship between the types of grouping strategy used, the implications for the integration of the organisation and the resulting culture within different groups. They suggested that different grouping strategies can facilitate different types of interaction patterns and influence the choice of co-ordination mechanisms. Mintzberg (1981 & 1983) recognised grouping as one of the fundamental aspects of organisational structure and design. This would suggest that an understanding of the impact of grouping is essential in recognising interaction and communication patterns and their influence on organisational decision-making. The development of an organisation ethics system would need to take into account the particular grouping strategy used so as to ensure organisational fit.

3.8.1 Situational Factors

Organisational theorists agree that a number of contingency or situational factors also influence the choice of the design parameters. They include the size of the organisation (usually measured in terms of the number of employees), its technical system of production, the characteristics of the environment, its strategy within its environment and the extent of the political activity occurring in the organisation. According to Child (1986) and Robbins (1990) the first four are commonly referred to as imperatives or contingency factors and account for up to sixty per cent of an organisation's structure. This is consistent with the notion of organisations being able to make conscious decisions and therefore qualifying as having moral responsibility. However, both recognize that the structure of an organisation does not parallel the theoretical structure based on these four imperatives. Power relationships, also known as dominant coalitions, influence managers in key roles and thus distort key design parameter decisions, such as policies, procedures, and levels of centralisation and indoctrination systems. Mintzberg (1998) agreed with this notion and suggested that, while design parameters should be chosen according to the dictates of contingency factors, a politicised internal environment would affect the quality of such decisions. This suggests that although an ethics system may be designed to reflect an organisation's structure, dominant coalitions still have the ability to influence decisions; not only with respect to the design of the ethics system but also the designation and implementation of responsibilities in the system and their evaluation. It is in this way that political as well as purely technical issues arise concerning the design and implementation of an ethics system. If the governing body of the organisation values its culture and way of doing things, then the preservation of these features will enter into the range of objectives of the organisation. It is not just a case of assessing the appropriateness of a particular structure, it is also a matter of determining who has the power to establish the structure and what advantages are derived by preserving it in that form (Child 1984). Block (1988) described this as a need for a political analysis to be made to ensure that an effective organisational change strategy would be implemented.

Preston (1996, p. 197) suggested that 'critical in the cultivation of an ethical ethos in any agency is the nature of relationships and the distribution of power throughout

the organisation’, adding that many organisations are ‘dominated by rules and standard procedures typically instilling fear in their employees concerning promotion and opportunities for advancement’. He argued that such organisations are more likely to experience *group think*, resulting in limitation of individual freedom in decision making, and the development of blind organisational loyalty. Such loyalty can reach a point where organisational members are unable to recognise blatant malpractices. He further described organisations that allow some degree of discretion in decision-making, in other words freedom, as more likely to foster ethical behaviour, which rests on autonomy and empowerment rather than compliance and control. He concluded that a democratic culture was more likely to be an ethical one, even though some form of compliance strategy needs to be established within the ethical contract (Preston 1996).

Essentially, Preston is suggesting that highly formalised organisations, relying on the standardisation of work, limit the discretion or freedom of the individual. This then creates a culture, so focused on achieving organisational goals and objectives that individuals can no longer separate out those actions, policies or strategies that could be considered unethical. If this were true bureaucratic or machine organisations, as described by Mintzberg, would most likely be unethical by this definition. Schminke (2001) pointed out that in mechanistic organisations decision-making is centralised, with a high level of formalisation controlling individual activities and decisions. Thus few decisions need to be made by the average individual, irrespective of whether such decisions are defined as ethical or not. Such operating procedures, rules and regulations establish standards of behaviour, and can therefore be seen as applied normative ethics. Buchholz (1989) identified normative ethics as being concerned with presenting a particular set of principles, and standards, that would be best for people to follow. Applied normative ethics focus on the tools and concepts of normative ethics to help define and clarify the obligations of agents, who regularly encounter ethical dilemmas as part of their normal sphere of activity. This suggests that organisational rules and regulations are, in effect, a form of ethical decision-making. Schminke (2001) identified that in more organic structures, having fewer standardised procedures and decentralised decision-making, greater ambiguity concerning appropriate behaviour is evident. Thus the more organic the structure, the greater is the reliance on alternative means of behaviour modification, such as shared norms or culture and professionalism.

3.8.2 Size - Structure Relationship

Daft and Steers (1986) identified that large organisational size is associated with greater complexity, decentralisation and formalisation. Greater complexity occurs because of the increased division of labour and the need for more hierarchical levels. As a result decentralisation occurs because top managers are unable to handle all the decisions in large organisations, so that the technical core, or specialised expertise, facilitates decentralised decision-making. Formalisation provides an impersonal way to standardise and regulate behaviour and the activities of an organisation, particularly when it has become geographically dispersed. This is consistent with the notion of bounded rationality, described earlier in this chapter.

Complexity, decentralisation and formalisation also influence the decisions of organisations, in terms of the function of non-core personnel. In theory, the standardisation of behaviour, through increasing formalisation and decentralisation of decision-making to lower hierarchical levels, means that fewer demands should then be placed on the administrative section of the organisation. Thus the ratio of total administrators to total employment is expected to be smaller in larger organisation. This has been identified by the Aston group, through their studies of large organisations in the UK during the 1960s (Child 1986). On the other hand, the phenomenon of increasing complexity means that organisations so affected will require larger technical and clerical staff ratios.

According to Daft and Steers (1986), a larger organisation size can also be associated with greater conflict between the bureaucratic elements. Greater complexity leads to increased levels of formalisation, or the breaking down of tasks into smaller components that can become routine and unchallenging. Highly trained professionals, in contrast, have long periods of formal training and work experience, resulting in extensive knowledge of task requirements and ability to work without close supervision, and the need for standardisation of their work processes. Thus the mixing of professional norms and bureaucratic rules can cause conflict. Mintzberg (1983) concurred, highlighting a major problem in professional organisations, which can occur if technocratic staff seek to standardise and control the work of the professional core. Thus a professional organisation requires both aspirational and compliance based strategies for different parts of its organisation.

Ferrell, Fraedrich & Ferrell (2000) distinguished between centralised and decentralised organisations, and drew conclusions concerning the impacts of ethical dispositions. They suggested that centralised organisations have specific ethical problems, due particularly to the concentration of authority at the top of the organisation; problems such as scapegoating or shifting blame on to those who may not be responsible for poor decisions. They also suggested that where high levels of specialisation tend to fragment the work task, employees might not understand how their work fits in with the rest of the organisation. This lack of connectedness may cause unethical behaviour, because employees cannot see or understand the overall effects of their actions. Ferrell, Fraedrich & Ferrell (2000) also suggested that because of high levels of formalisation, such as with structured decision-making models, employees might act solely within the letter of the law rather than in the spirit of the law. This issue, together with the fragmentation of decision-making, may lead to imperfect communication between operators and senior management. Senior managers may also become unaware of the ethical implications of decisions taken further down the hierarchy or of the unethical behaviour of organisational members (Ferrell, Fraedrich & Ferrell 2000). These problems have also been identified by Cameron (1980); Child (1986) and Robbins (1990) as a common consequence in highly vertically differentiated structures.

Ferrell, Fraedrich & Ferrell (2000) also described decentralised organisations as having particular ethical dimensions. They suggested that while the great strengths of a decentralised organisation are its flexibility and ability to respond to change, the wider authority accorded to managers further down the hierarchy can result in a deviation from organisational objectives. They concluded that, due to the strict formalisation and implementation of ethics policies and procedures, centralised organisations tend to be more ethical in their practices than decentralised organisations. They stated ‘centralised organisations exert more influence on their employees because they have a central core of policies and codes of ethical conduct’ (Ferrell, Fraedrich & Ferrell 2000, p. 126). Decentralised organisations allow their employees greater levels of decision-making autonomy, but this can lead to deviation from ethical standards.

Although Ferrell, Fraedrich & Ferrell (2000) provided little evidence of research to support their conclusions, Schminke (2001) has explored the relationship between organisational size, structure and the resulting strength of or impact on individual ethical predispositions. Like Preston (1996), he hypothesised that individuals in more flexible and organic structures would display stronger ethical predispositions than those in larger more centralised, formalised and complex organisations. Schminke surveyed 209 individuals from eleven organisations, using the character trait version of the measure of ethical viewpoints (MEV) to establish the extent to which individuals displayed utilitarian or formalist ethic predispositions, and the relative strength of each. Rather than discovering more ethically predisposed employees in the organic and flexible organisations, he found that the more formalised organisations provided a stronger correlation, with their employees having a greater predisposition towards ethical behaviour. Schminke's (2001) findings are consistent with Ferrell, Fraedrich & Ferrell's (2000) hypothesis that centralised organisations tend to have more consistent ethical behaviour than decentralised organisations. Schminke also proposed that a possible explanation for the findings was that a strong ethical system, using codes of ethics and other policies or guidelines, reduces uncertainty concerning ethical behaviour. Employees in such organisations are able to identify ethical dilemmas more effectively than those in organisations that rely mainly upon each individual's discretion.

In considering the moral responsibility of organisations Danielson (1995); Donaldson (1989) and French (1993) pointed out that structured internal decision-making systems established a form of artificial morality, due to the rational nature of the formalised approach considered in Sections 3.4 and 3.5 of this chapter. This supports the findings of Schminke (2001) that ethical decision-making systems in large organisations, based on formalised approaches, create greater certainty, and this certainty becomes apparent in more consistent ethical behaviour. As previously identified in this thesis, the purpose of formalisation, according to Child (1986); Daft (2001); Hatch (1997) and Robbins (1990), has been to establish predictable behaviour. Thus in large organisations an effective way to establish ethical behaviour is through formalisation. This underlines the importance of using compliance approaches to ensure ethical behaviour in more bureaucratic organisations.

Organisational structure has also been shown to have a direct influence on other organisational variables, such as strategy formulation, interaction patterns and member socialisation. Schminke (2001) argued that there is also a relationship between organisational structure and the ethics of organisational members. He cited the research of Oldham and Hackman (1991), who examined the relationship between centralisation, formalisation, organisational size, hierarchical levels and how such factors affected employee approaches to work. They concluded that structure influenced the ethical reactions of employees through the level of complexity associated with tasks, rather than as a separate issue or by attracting or retaining certain types of employees. They suggested that larger organisations do not necessarily retain individuals with strong atypical characteristics, but rather the design of the work roles acts upon ethical predispositions in such a way as to strengthen them. They cited examples of organisational characteristics, such as codes of ethics and organisational training, as the means by which large and mechanistic organisations control the work tasks and thereby the ethical predispositions of employees. Schminke (2001) pointed out that few uninformed decisions are made by the average individual in mechanistic organisations, irrespective of whether these can be defined as ethical or not. He discovered that the opposite is true for more organic structures that have fewer standardised procedures and greater ambiguity concerning appropriate behaviour. Thus the more organic the structure, the greater the reliance on alternative means of behaviour modification, such as shared norms or culture and professionalism, to achieve ethical outcomes.

3.9 Organisational Form: The Bureaucracy

According to Daft and Steers (1986), organisational analysis problems often arise from the assumption that all organisations can be treated as being similar. They pointed out that a suitable structure for a manufacturing firm will not be successful for that of a school, nor will the rules and policies of a federal government agency be appropriate for a municipal government authority. Understanding the basic differences across organisations, and the appropriate management responses to these differences, is one of the major contributions of organisational theory (Daft & Steers 1986). This thesis is concerned primarily with large organisations, commonly described as bureaucracies. It is therefore important to analyse relevant bureaucratic forms and to understand how behaviour, and in particular ethical behaviour, is influenced in each structure.

Max Weber developed a framework to describe the administrative characteristics that make organisations rational and efficient. He studied government organisations that were growing larger to cope with the problems of governing increasing populations. Weber's exposition of bureaucratic characteristics represented a fundamental perspective on what was needed for an organisation to act rationally, be efficient and make the best use of scarce resources, while at the same time being large enough to meet the needs of its constituency (cited in Byrt 1973). Many of the characteristics described by Weber are consistent with the concepts identified in Section 3.2.2 of this chapter, concerning the moral dimensions of organisations. In particular the use of structured systems and defined responsibility as a means of ensuring moral outcomes are discussed. Weber's bureaucratic model was intended to describe the positive features of bureaucracy and represent a theoretical ideal to which such organisations might strive (Daft & Steers 1986).

3.9.1 General Characteristics of Bureaucracy

Weber proposed that the ideal bureaucracy demonstrates particular characteristics when considering concepts such as hierarchy, responsibility and the allocation of tasks (Daft & Steers 1986). He identified that organisational activities need to be divided into systematic divisions of labour. Task authority and responsibility for each employee needed to be clearly defined, with position holders working within a specific domain of responsibility free from interference by other employees. All employees would be then be selected and promoted on merit only, based on technical competence. According to Weber, using such rules to hire and promote people would be more rational than using criteria such as friendship, political ties or family connections (Daft & Steers 1986).

This can be seen as a description of formalisation used as a basis for consistent decision-making. It advocates that people should be qualified to do specific tasks in job positions set in a hierarchy where each position would be controlled by one at a higher level of the hierarchy. This relationship would then provide the basis for effective supervision and control, and thus ensure that activities would be performed predictably, efficiently and effectively within the organisation. Rules and regulations would be impersonal, providing direction and guidelines to employees and ensuring

equal treatment for employees and clients alike. This can be seen as an argument, consistent with observations by Buchholz (1989), that organisations using rules and regulations demonstrate a form of applied normative ethics.

Weber also described the need for organisations to keep records of administrative decisions, activities and rules, to allow previous decisions to be evaluated, to ensure that such rules and decisions are visible to all and display rationality. Importantly, he stressed that maintenance of records adds to organisational memory and assists in educating and training new employees. Weber also insisted that all officials within the organisation be paid a fair and adequate salary, thereby reducing or eliminating the temptation to accept or seek bribes, or misappropriate the property of the organisation. Administrators would be objective, impersonal and treat employees and clients fairly (Daft & Steers 1986).

These basic characteristics of bureaucracy parallel much of the discussion concerning organisational morality and ethics. Weber noted such issues as organisational memory, holding individuals accountable for their actions through hierarchical systems, and the role of appropriate rewards systems to help prevent bribery and corruption. He argued that the use of formal structures, and the application of consistent principles of control through policies and procedures, would enhance the ethical characteristics of an organisation (Daft & Steers 1986).

A direct relationship can be established between the characteristics of bureaucracy, particularly the structural variables of formalisation, and those of morality and ethics. Weber's first characteristic is directly related to the issue of responsibility, indicating that employees must be held responsible for their actions. This is similar to moral responsibility. The third characteristic is related to the first, in that Weber identified that as responsibility increases, a system of accountability must be established so as to institute controls within the organisation. This concept has been discussed earlier in relation to rationality and CIDs. The second and sixth characteristics address issues of justice and fairness, emphasising that employee selection should be based on well-established and transparent principles of impartiality. By rewarding people in a just manner, the organisation reduces the need for unethical behaviour. According to Weber, rules and policies establish rational guidance to employees' decision-making behaviour, which results in ethical

outcomes of consistency and fairness (Daft & Steers 1986). The use of records establishes an organisational memory, enabling organisations to learn and thereby modify their rules and policies when necessary. This can be linked directly to the earlier discussion in Section 3.2 of this chapter, as to whether an organisation can be considered to have consciousness and memory, and hence personhood. The fourth and fifth characteristics also establish a direct link between formalisation, ethics and the concept of the moral corporation (Daft & Steers 1986).

Weber is largely considered to be the originator of the bureaucratic form, where organisations of this type have memory, resulting from a recording of rules and regulations and an analysis of their application. These rules and policies constitute a decision-making system, which establishes a defined authority-responsibility relationship and ensures rationality. As discussed in Sections 3.2 through 3.4, these are the basic conditions for considering an organisation to have moral responsibility and accountability. These bureaucratic dimensions exist in today's large organisations, which adhere to the rules of division of labour, written records and a clear hierarchy. Such basic characteristics have become widely accepted as appropriate for the organisation of large-scale firms (Daft & Steers 1986).

3.9.2.1 Classifying Structure Configurations

As previously identified, organisations can be of different shapes and sizes. However, common components and design strategies allow for comparison and analysis. Traditional models of organisational theory use the methods described above to classify or label different structural forms. Lawrence and Lorsch (1967) and Schminke (2001) have pointed out that pure organic and mechanistic organisations are theoretical constructs, which only exist at the opposite extremities of a structural continuum. In reality, most organisational forms are hybrids, possessing characteristics of both structures. While the contingency approach to organisational design has been questioned, it remains the dominant approach to organisational design (Mintzberg 1998).

The structural typology of Mintzberg (1981, 1983), is based on traditional concepts, but simplifies organisational description by identifying component parts of the organisation, and the strategies for encouraging coordination amongst those parts.

Mintzberg suggested that the dominance of some parts over others, combined with the use of particular coordination strategies, results in particular organisation structures or configurations. Since his original 1984 propositions, in which he identified five key categories or parts, five coordinating mechanisms and five resulting structural configurations, Mintzberg has further developed the concept to now include six categories or parts, six coordinating mechanisms, and seven structural configurations (Mintzberg 1998).

3.9.2.2 The Six Key Parts of the Organisation

Mintzberg's first component category or part identified those in charge of an organisation, whether owner-managers or senior executive employees. He referred to this group as the *strategic apex*, largely because they are found at the pinnacle of the organisation's hierarchical structure. These individuals perform a leadership or figurehead role, and determine the strategic direction of the organisation (Mintzberg, 1983; Mintzberg 1998). The role of the strategic apex in the establishment and modelling of core ethical values, is crucial to the development of an effective ethical culture. This proposition is also consistent with the research of organisational authors such as Bartol et al. (2000); Brown (1998); Ivancevich and Matteson (1996) and Schein (1997), who have described the role of owners or organisational leaders, in the establishment of myths, stories and rituals, as drivers of organisational culture.

Mintzberg (1981, 1983) next identified the *operating core* as that part of the organisation encompassing the workers. He defined this group as those directly involved in the production of goods and services, or those who do the basic work of the organisation. He further suggested that the strategic apex is unable to supervise the entire operating core as organisations grow, and thus must hire intermediate managers. These form the next part, *the middle line* of his framework. The function of these intermediate or middle line managers is to translate the medium and long-term strategic goals, which have been devised by the strategic apex, into achievable short-term goals for the operating core. (Robbins 1990; Robbins & Barnwell 1998) The need for middle line intermediaries has also been supported by the findings of Peter Blau and the Aston group from the Tavistock Institute in London, during the late 1960s, in landmark research into organisational size. They identified that as

organisations grow, so too must the managerial component, represented in the vertical levels of the hierarchy (Child 1984).

The direct relationship between these three parts is consistent with the chain of command concept, described by organisational theorists such as Max Weber and Fredrick Taylor, who argued for increasing specialisation to be accompanied by increasing levels of direct supervision (Ivancevich & Matteson 1996; Quinn, Thompson, Faerman & McGrath, 2003). This has been identified in Section 3.4 and 3.5 of this chapter, regarding the aspects of formalisation and internal decision making systems that argue organisations have both moral and ethical dimensions.

Two other specific groups identified by Mintzberg as parts of the organisation, consist of analysts who design and assist with the implementation of work systems, rules and procedures (*technostructure*), and staff who provide indirect services to the rest of the organisation (*support staff*). The *technostructure* also includes other elements, such as human resources specialists, planners and systems designers. These are the individuals who create policies and procedures for the rest of the organisation. A direct relationship can be established between these two groups and organisations that utilise formal approaches for creating ethical cultures. In organisations that use formal codes of ethics, the technostructure plays an important role in the establishment of ethical rules and standards. Support staff cover a wide range of services, from maintenance to cleaning, but also include administrative, records maintenance, communication systems and some human resources training personnel (Mintzberg 1998). Communication strategies and training are critical to the design of effective, ethical systems. This chapter has also demonstrated that ethical systems employ rules, policies and procedures in addition to cultural mechanisms. It should be noted that these two groups have a direct relationship to the creation and maintenance of such systems.

Lastly, as discussed in Section 3.7.1 through 3.7.5, Mintzberg (1998) identified the *ideology or culture* of an organisation as its sixth part. While not constituting a physical group like the other parts, Mintzberg argued that the values and beliefs of the organisational members could also be standardised. In this way the ideology can become a regulator of behaviour and a substitute for levels of formalisation (Hatch 1997; Robbins & Barnwell 1998).

3.9.2.3 Coordination of Activities.

Mintzberg (1984, 1983) suggested that the purpose of structure is to coordinate the work that is divided up between the various sub-groups of the organisation. Depending on the level of organisational complexity, another key factor in determining the appearance or shape of the organisation, is how coordination is achieved, and by whom. As with the key parts described above, he proposed six mechanisms of coordination that can emerge in different structural forms.

Where the strategic apex consists of owner-managers and work coordination is achieved predominantly through direct supervision, orders, directives and control strategies, a relatively rudimentary structure emerges, having only as many employees as the owner-manager can supervise. Here the strategic apex is the key part, with direct supervision being the prime coordinating mechanism. Mintzberg refers to this configuration as the *simple or entrepreneurial form* (Mintzberg 1998). As identified in Section 3.4.2 above, the leaders in this style of organisation establish the values, norms and beliefs of the organisation, and its ethical system is most likely to be based on the values and beliefs of the owner-managers.

As organisations grow and need to produce consistent products and services in a relatively simple and predictable environment, work tends to become fragmented amongst the many sub-parts that develop. As a result coordination can best be achieved through the standardisation of how work is achieved. A large administrative group (technostructure) tends to emerge to design and monitor the standards of operation. This group often becomes the dominant part of the organisation, achieving coordination through standardising work processes and increasing levels of formalisation, and thus giving rise to the *machine organisation* configuration. The implication for ethical systems is that ethical behaviour must become part of the work standard. The most common form of standardisation occurs through written policies and procedures, discussed earlier in this chapter in Section 3.6.3 (Mintzberg 1998; Robbins & Barnwell 1998).

Organisations that face more complex environments require increased flexibility and innovative solutions. They tend to hire skilled workers who can solve different problems in different ways. As these workers tend to be professionals, coordination

is difficult to achieve through the imposition of rigid rules, as is done in the machine organisation through the standardisation of processes. The work undertaken by these professionals is not routine; rather they have standardised skills and knowledge, usually attained prior to employment. Such skills and knowledge are typically acquired through formal courses, which provide recognised qualifications or certification, or through general industry based training and accreditation programmes. The organisation needs these highly trained professionals in its operating core, as well as considerable numbers of support staff to back them up. Coordination is achieved through the individuals having standardised knowledge to deal with the problems encountered. An example would be engineers or accountants, who deal with different problems using standardised knowledge. (Mintzberg 1998; Robbins & Barnwell 1998) This situation gives rise to the *professional organisation* with neither its *technostructure* nor middle lines being extensive. The implication for ethical systems is that ethical rules cannot be applied in a routine manner. Rather, the systems must reflect the flexibility of the professional operating core (Mintzberg 1998). A further relationship can be established between the professional organisation and the ethical responsibilities of professionals. Koehn (1994) and May (1998) have suggested that individuals who claim to be professionals are committed to a set of overarching ethical principles that govern their behaviour and thus decision-making. This is consistent with Mintzberg's contention that the members of the operating core of the *professional organisation* possess skills and abilities that are standardised by external bodies or associations. In effect these outside organisations perform the same function as an internal organisational technostructure, thus diminishing the need for this part. There are legitimate questions as to whether these external bodies are effective in establishing the standards of behaviour required by organisations; however, this is an area which could be considered as a further research question, and outside the boundaries of this thesis.

As organisations grow ever larger, they tend to diversify into multiple and unrelated environments and so develop lateral autonomous groups or divisions, operating in geographically dispersed locations. In such configurations middle line managers effectively become the strategic apex of each of the divisions, whose performance is assessed by comparing the outputs of each division. Thus where the middle line acts

as the key part and coordination by output occurs, the concept of the *diversified organisation* emerges (Mintzberg 1998).

Mutual adjustment is the fifth coordinating mechanism, where work is coordinated by people who communicate without formal direction. This is usually necessary because standardisation cannot occur, due to the organic and complex nature of both the environment and the organisational structure that militates against standardised work processes. In such cases the structure that emerges, *the adhocracy*, has a flexible operating core that expands and shrinks according to need, and possesses an elaborate support structure to assist the core to achieve the output (Mintzberg 1998).

Lastly Mintzberg proposed that coordination could occur through the standardisation of norms, where organisation members share common beliefs and values. In such organisations co-operation tends to occur without the need for direction, rules or policies. Thus the *missionary organisation* emerges (Mintzberg 1998).

Mintzberg maintained that not all organisations need or possess all of the parts he has identified. Small organisations that exist in simple environments require few parts, while larger organisations often use all parts in more complex ways. The central purpose of structure is to co-ordinate the work, which is divided in a number of ways; how that co-ordination is achieved - by whom and with what - dictates the shape of the organisation (Mintzberg 1998). (For a brief discussion of all of the configurations, see Mintzberg, H 1981, 'Fashion or fit', *The Harvard Business Review*, vol. 59, no. 1, pp. 103-125.)

3.10 The Three Large Structural Forms: Characteristics and Ethical Design Implications

The discussion in this chapter has been concerned with the relationships between structural variables, formalisation, centralisation, culture, ethical responsibility and accountability within organisations. However, it has also indicated a lack of cohesive and detailed discussion in the literature, concerning relationships between different structural types and ethical implications, and particularly the design of appropriate ethical systems. Paine's (1994) typology of compliance and integrity systems matches organisation structures at the extreme ends only of the organic-mechanistic

continuum. In order to facilitate analysis of the three case studies it has been necessary to describe the structural forms used by the organisations concerned, and to present a hypothesis regarding the implications for ethical design in each.

3.10.1 The Machine Organisation

This structure characterises what is commonly referred to as a bureaucracy. Its prime attribute is that of an elaborate administrative body and technostructure needed to design and maintain its systems of standardisation. A key feature of the machine organisation is that the technostructure, the individuals and groups who design rules and regulations to standardise the work of others, achieve a substantial degree of influence, and often become the dominant part as a result of the organisation's great dependence on formalised systems. Individual discretion is limited within the organisation due to such a reliance on rules and regulations. In addition a large hierarchy of middle managers emerges to control the work of the operating core. Functional grouping strategies are typically used throughout such organisations. This means that decision-making power becomes centralized at the top of the organisation within the strategic apex (Mintzberg 1998).

3.10.1.1 Major Characteristics of the Machine Organisation

The prime coordinating mechanism in machine organisations is the standardisation of work processes. The integration of work requirements across the organisation, within the various functional groups, is achieved through the extensive use of rules and regulations. The key part of the organisation, the technostructure, emphasises the need for standardisation to cover all areas of the machine organisation. Rules and regulations permeate the entire structure: formal communication is emphasised at all levels and decision-making tends to follow the formal chain of authority (Mintzberg 1998). The behaviour of organisational members is tightly controlled through the use of high levels of formalisation. As a result machine organisations are characterized by strict divisions of labour and highly specialized jobs in the operating core. The administrative structure is differentiated from the operating core in a similar way, with division of labour between the analysts in the technostructure and the facilitators in the support staff. According to Mintzberg (1981, 1983) the machine organisation functions according to the classical principles of management. Information filters down a clearly defined hierarchy, which maintains a strict chain

of command and clear distinctions between line and staff personnel. Mintzberg suggested that machine organisations are obsessed with the concept of control. Attempts are made to eliminate all possible uncertainty through the standardisation of work, so that the machine organisation can run smoothly without interruption (Mintzberg 1998).

The machine organisation, or bureaucracy, emphasises standardisation of work as a means of co-ordination, resulting in low skilled, but highly specialised jobs. The machine organisation elaborates its administrative function by requiring large numbers of analysts to design and maintain the systems of standardisation, and in particular those that formalise behaviours and actions. By virtue of the organisation's dependence on such systems, the design analysts gain a degree of informal power, resulting in a certain amount of decentralisation (Mintzberg 1998).

A large hierarchy emerges in the middle line to oversee the specialised work of the operating core, and to deal with the organisational conflict that arises from rigid departmentalisation, and the alienation resulting from routine job design. The middle line is usually structured into functional groups, with a tall hierarchical system that centralises power within the top echelon of the organisation. This suggests that decision-making power is controlled from the strategic apex of the organisation (Mintzberg 1998).

Machine organisations depend on stability to function and as a result they seek out stable environments, both internally and externally. They often try to create the latter through vertical integration, becoming their own suppliers and at times their own customers, and can become extremely large (Mintzberg 1998). As previously identified, increasing size increases bureaucratisation (Child 1984).

To enable control to be maintained by top management, both the environment and the production system must be fairly routine and stable. This is most common in mass production or mass services organisations. These achieve success through meticulous standardisation. The important aspect is that they need to run like a machine; regular, routine and predictable. Employees then are selected on the basis of meeting the specific requirements of specific jobs in the organisation. Mintzberg (1998) suggested that training in such organisations tends to be limited to meeting

immediate job requirements and, in particular, the ability to use organisational policies and procedures. Brown (1998) identifies this emerging culture as bureaucratic. He described the culture as a mirror to the machine like structure of the organisation, in that employee behaviour supports and reinforces the rules, regulations and policies of the organisation.

3.10.1.2 Implications for Organisational Ethics

The ethical system designed for a machine organisation needs to be consistent with the high degree of formalisation and standardisation of work processes; that is, the prime coordination mechanism of a machine organisation. It is likely that the highly controlled nature of the machine organisation would utilise broad ethical policies, or series of rules, designed to establish organisational commitment to the prime organisational goals, as defined by the strategic apex. As this type of organisation is highly formalised, Mintzberg's concept of *fit* suggests that an attempt to establish ethical behaviour needs to be consistent with the prime coordinating mechanism of the organisation. This requirement has been identified previously as the need for standardisation of work processes through the use of rules and regulations. The utilisation of detailed codes of conduct, with clear statements of permissible and prohibited behaviour, would be consistent with this concept. This concept has been identified as the compliance approach to organisational ethical systems. It is likely that the greater the degree of formalisation within an organisation, the greater the detail of the code of conduct. It can also be assumed that, as different sections of the organisation would have different rules and regulations pertaining directly to their specialised jobs, so too would they have different compliance codes. The objective of the ethical policies would then be to reduce discretion levels, and provide routine solutions to dilemmas in decision-making faced by individuals in those sections.

The machine organisation is likely to have a bureaucratic culture that supports the rules and regulations that characterise high degrees of formalisation (Brown 1998). As identified above, cultural strategies such as training, orientation and communication, would typically be designed around reinforcing the culture's support of its ethical policies. Socialisation strategies need to be congruent with the bureaucratic culture, so as to gain acceptance of the ethical standards as normal policies and procedures. Socialisation strategies in the machine organisation tend to

be limited to developing procedural competence, and information is typically communicated through newsletters or organisational circulars, group emails or intranet technologies. Ethical strategies tend to be limited to training designed to identify ethical dilemmas and use particular codes of conduct as a means of resolution. It is likely that little development, as distinct from training, would occur, which is consistent with Mintzberg's observations of limited training designed to inform employees of the policy and how to use it. This in effect results in compliance rather than understanding (Mintzberg 1998).

This suggests the development of detailed descriptions of what is and what is not permissible. Clear rules would need to be established on how to solve problems or what to do in the event of a problem not being solvable. Consistent with the machine organisation's reliance on routine procedures, particularly in following a chain of command, ethical reporting systems would necessarily be established along similar lines. Compliance strategies would typically be built into existing policies, such as for staff selection, performance management, reward and promotion policies. This suggests a high degree of formal reporting mechanisms, including the utilisation of 'hotlines' or already established discipline and grievance procedures (Mintzberg 1998).

In applying these principles the emphasis on rules suggests that a compliance-based approach would best suit a machine organisation. Given that the dominant culture is defined as bureaucratic, it supports a rules-based system. Due to the highly centralised nature of such organisations, the operating core of the organisation has little autonomy or discretion and would properly require an ethics program consistent with a bureaucratic culture. With the technostructure as the key part of a machine organisation, it is likely that the analysts responsible for writing policies and procedures would be in charge of the organisational ethical system. Analysts of this type are normally found in the human resource professional area of the organisation.

Given the functional nature of machine organisations, the establishment of a functional office for ethics would be likely. This might be a separate functional group, such as an ethics committee, or be based within an existing technocratic function, such as human resources. Consistent with the technostructure being the key

part, this group would determine the ethics policy in terms of content, style and the manner in which it was implemented and enculturated. These analysts would implicitly design a system that continued the standardisation of behaviour.

The evaluation of policies, procedures and processes in the machine organisation would similarly be highly standardised. Specific and measurable criteria can be identified: the number of employee violations of the codes, reporting on gifts received by organisational members, usage of 'hotlines' and reporting mechanisms and the number of complaints or resolved disputes amongst members. Emphasis would be placed on the process of completing the required evaluations, rather than whether the content could be used to improve the programme.

The machine organisation is therefore likely to create an ethical system consistent with an emphasis on rules and regulations. The larger the organisation, the greater the resulting use of such systems, with a probable increase in detail of the rules and policies. It can be concluded that this ethical system would most parallel Paine's compliance approach.

3.10.2 The Professional Organisation

According to Robbins (1990) the last quarter of the twentieth century saw the emergence of a new form of organisational structure, which encouraged the employment of trained specialists in the operating core. These specialists could be afforded higher levels of discretion, but still achieve efficiencies through standardisation, similar to that in machine organisations, in other parts of the organisation. This configuration has been referred to as the professional organisation, combining standardisation with decentralisation.

3.10.2.1 The Professional Organisation: Major Characteristics

The professional organisation is based on the need for professionals to produce the organisation's goods and services in a way that may not always be standardised. This is due to the particular kinds of problems that occur in a changing and complex environment. Examples of such structures, according to Mintzberg (1981) include: hospitals, schools universities, accounting firms, advertising agencies and law firms.

This particular organisational design relies on social specialisation. This specialisation is based on the abilities, skills and knowledge of individuals, rather than the functional specialisation achieved through the division of labour more commonly found in machine organisation. This suggests that the professional organisation is not as formalised as the machine bureaucracy. The professional organisation tends to rely predominantly on policies and guidelines that guide rather than prescribe behaviour. According to Mintzberg (1983) this reliance leads to higher discretion levels and a moderately decentralised organisational structure within the vertical hierarchy of the organisation. He identified the professionals who make up the operating core as the key part of such an organisation. The power for decision-making would therefore rest with the operating core who possess the critical skills and abilities required by the organisation (Mintzberg 1981, 1983, 1998).

The other significant aspect of a professional organisation is its need for a large and elaborate support staff, whose activities would be subservient to the needs of the operating core. Much of that work would be simple, routine, and often tasks that the professionals have declined. As a result a parallel hierarchy would tend to emerge in the support and technocratic areas. Unlike the professional structure, such a hierarchy tends to be centralised, with high levels of formalisation and little autonomy. Their work would be standardised in a way like that of the machine organisation. The operating core (those that do the work of the professional organisation) would have fewer rules and regulations (Mintzberg 1981, 1983, 1998).

A strength of the professional organisation is that it can perform highly specialized tasks, requiring highly trained professionals, with the efficiency of a machine organisation. A major problem can then arise due to its decentralized power structure. According to Robbins (1990), the professional organisation requires senior managers to give up a substantial degree of control, which they are often reluctant to do. A weakness of the professional organisation, evident also in the machine organisation, is displayed when sub-unit conflicts occur between the different groups of professionals as they pursue their own specific goals. Also the conflict between the highly formalized support and small technocratic staff, coupled with the unwillingness of senior managers to delegate authority, can lead to stressful conflict when technocrats try to standardise the work of the professionals. This results in a

tendency to push the professional organisation towards the machine organisation configuration, which Mintzberg refers to as a process of 'balkanisation' (Mintzberg 1998). Child (1986) and Robbins (1990) identify this political process as inherent to the role of dominant coalitions. Mintzberg (1998) also describes this process as having the potential to dominate all aspects of the organisation thus leading to a configuration without key parts of primary coordination mechanisms, characterised by constant internal conflict, which he termed the *political organisation*.

As the bureaucratic configuration relies on the standardisation of skills rather than works processes or outputs for its co-ordination, so it emerges as dramatically different from the machine organisation. Because it requires trained professionals, with appropriate skills, who must be given a fair amount of control over their own work, the organisation surrenders a good deal of its power, not just to the professionals, but to the external associations that select and train them. As a result the structure tends to emerge as decentralised. Because the professionals are highly trained, there is little need for standardisation of the work processes. They usually work as relatively independent colleagues, having assurance that most of the co-ordination requirements will occur automatically through a shared skill standardisation. As a result there is little need for a large technostructure (Mintzberg 1981, 1983). Normally a medium sized professional organisation is still bureaucratic and quite mechanistic within the support and technocratic staff groups; however, the main part of the organisation is the operating core of professionals, who gain greater discretion because of their skill base.

3.10.2.2 Implications for Organisational Ethics

The professional organisation would most likely require an ethical system that uses a range of strategies. The first inference that can be drawn from such a structure is that the professionals would not require the detailed code of conduct typically found in a machine organisation. This suggests that the integrity or aspirational approach, providing guidance rather than prescriptive behaviour, is consistent for the key part as well as for the prime co-ordinating mechanism of the organisation, being the standardisation of skill. Reinforcement strategies, predominantly training, communication and reward systems, would need to build on those professional standards already established through social specialisation. This would be consistent

with the other important co-ordination mechanism of the professional organisation, that being the standardisation of norms. Given the importance of values for professional members, it is likely that cultural strategies would also play a greater significance in professional organisations than in machine organisations.

However, there is still a tendency for other parts of the professional organisation, in particular the support and technocratic staff, to operate with a structure more akin to a machine organisation. High levels of formalisation and a relative lack of discretion due to the standardised work processes would typify these sections (Mintzberg 1998). In those parts of the organisation where the aspirational code can be used as a guideline, more specific codes of conduct would need to be developed consistent with higher levels of formalisation. Reinforcement strategies for this section of the organisation would therefore need to be different to that provided in the operating core. This concept has been identified in the previous section as the standardisation of behaviour by means of the use of work processes, which provides a set of rules and regulations more typical of a code of conduct.

As identified by Mintzberg (1981, 1983) and Robbins (1990) this duality of structure within the organisation has the potential for great conflict between those who have high discretion levels, that is the operating core, and those who are subject to greater levels of formalisation.

3.10.3 The Diversified or Divisional Form

The last organisational structure to be examined in this thesis has been identified by Mintzberg as the *diversified* or *divisional* form. It is essentially a partial structure, where the divisional groups, or business units, tend to be machine organisation internally. A central headquarters is used to coordinate the total organisation, and the middle line comprises the strategic apexes of the divisions. This in effect gives this group a great deal of control over the organisation. Corporations such as General Motors, Time Warner AOL, and Coles-Myer typify this form of structure. The *diversified* form is typically seen in mature and very large companies that have diversified into different markets, environments and are also geographically dispersed (Mintzberg 1981, 1983).

3.10.3.1 The Diversified or Divisional Form: Major Characteristics

The *diversified* form resembles the machine bureaucracy; however, it is designed to respond to strategies that emphasise market or product diversity. The organisation is typically large, with technologies that are divisible and where the multiple environments tend to be simple and stable. Diversified organisations generally operate their various divisions as autonomous companies, co-ordinated by a central headquarters (Mintzberg 1998). The headquarters acts as the strategic apex for the entire organisation, providing an overall corporate vision, support services to the divisions and evaluating and controlling performance of the divisions. In reality the heads of the divisions (usually the executives of the separate units) are the key part. As the different divisions may be diversified, not only in geographical location but also in terms of environment and industry, it is difficult to assess performance of the internal divisional processes. Therefore, the organisation seeks to standardise the outputs of each division. According to Robbins (1990), the diversified structure typically represents a set of smaller companies or organisations that typically correspond to a machine organisation. The divisions tend to be organised into functional groups, with high division of labour, high levels of formalisation and centralised authority vested in the divisional managers.

Within each of the autonomous divisions, the senior managers are responsible for divisional performance and usually hold complete strategic decision-making authority for their divisions. Thus the divisions tend to be autonomous within specified parameters. The use of the diversified structure can be traced back to Alfred Sloane at General Motors in the 1920s, established decentralized operations and responsibilities with divisional managers free to direct their divisions, within the overall guidelines established by headquarters (Mintzberg 1981). As Robbins and Barnwell (1998) have identified, the reality of the diversified organisation is that the strategic apex allows the divisions autonomy only within narrow parameters. Typically these parameters create uniform policies that all divisions must follow, irrespective of their particular needs or environment.

One of the major strengths of the diversified organisation comes from the self-contained nature of the divisions. The divisions possess responsiveness, accountability, and the benefits of specialisation and can process information from

different environments and respond accordingly. They also have the benefit of large size that allows for economies of scale, acquisition strategies and the spreading of risk (Mintzberg 1998).

The weakness of the diversified organisation occurs through the duplication of activities and resources used in each division. The effect is increased costs, reduced efficiency and problems coordinating activities that require cooperation between divisions. Rivalry and territorial protectionism can increase the difficulty of organisational integration across the entire organisation. According to Mintzberg, the strategic apex responds by trying to impose greater guidelines, or in effect standardising the internal activities of the divisions. This renders the organisation less able to respond to local environmental factors (Mintzberg 1998). Such an example could occur when an American headquarters directs its Australian subsidiary to implement a HR policy, used extensively in the United States, but culturally inappropriate within the Australian context.

3.10.3.2 Implications for Organisational Ethics

The diversified organisation is in effect made up of a number of separate entities, typically machine organisations, referred to as divisions. However, other structural types can exist since these divisions operate as separate companies, often in completely different environments and with a high degree of geographic dispersion.

Given the role of the strategic apex, as discussed previously, in utilising guidelines for direction and measuring outputs of divisions as the prime method of coordination, the likely ethical system established would be an ethical policy or set of guidelines to be applied consistently across all divisions. As noted earlier, the concept of policy is not the same as that of rules. In the diversified form, the strategic apex would provide an ethical policy consistent only with the integrity or aspirational approach. It would then be up to the divisions to devise a specific ethical system that best suited their individual structural form. Given that the various divisions can exist in different geographical regions, and often engage in activities unrelated to other divisions, it is also possible that a diversified organisation would have a number of different ethical systems. These would range from rule-based compliance to the aspirational approaches, as guided by the ethical guidelines

established by the strategic apex. A further analysis would then need to be made on a division-by-division basis to establish whether each individual ethical system was 'in-fit' with the structure of each division. However, as argued by Mintzberg (1981), the strategic apex often encounters difficulties in trying to co-ordinate the activities of the separate divisions. This can lead to inappropriate attempts to establish higher degrees of centralisation and stricter standardisation of the ethical policies. If this were to occur, then the individual divisions would not be able to tailor their ethical policy to suit the specific environment in which they operate. This would then be an example of a structural inconsistency.

3.11 Conclusion

This chapter has proposed that organisation structure can be used in conjunction with ethics literature to debate the existence of a moral dimension in organisational action. It has been shown that many of the strategies identified as being the basis for developing an ethical culture are actually structural variables. However, there is little congruence between the two disciplines. Three major bureaucratic structures have been identified, together with their implications for the design of any ethical system. The hypothesis to be tested is: different types of bureaucracies will require establishment of different approaches to ethics.

The arguments put forward for holding organisations morally responsible, including the moral person view, agency theory and concepts of structural restraint, were shown to be concepts and models from organisational theory. Vertical differentiation or hierarchy was linked to allocation of responsibility, agency theory was directly related to the notion of organisational purpose, the decisions to change goals, objectives and structure hierarchy demonstrated organisational memory and consciousness, whilst structural restraint was shown to utilise organisational theory literature relating to allocation of accountability and responsibility in hierarchies. Codes of ethics and conduct were proven to be examples of formalisation, which seeks to control appropriate employee behaviour. There is a clear relationship between ethical climate and organisational culture, as outlined in organisational theory, as a means of establishing predictable and ethical behaviour. Weber's original bureaucratic concept was shown as method of maintaining ethical standards through the use of rules and regulations, clearly in defined accountability systems and appropriate reward systems.

This chapter outlined three bureaucratic forms, classified using Mintzberg's typology, as the machine, professional and diversified organisational forms. Each configuration was detailed including the type of ethical system that would be most consistent with each structural form. This chapter identified that the ethical system typology which characterises the majority business ethics literature could only be applied to two structural forms, that of the small, flexible organic structure which paralleled the aspirational or integrity approach, whilst the compliance approach seemed to parallel the mechanistic structures as described by Lawrence and Lorsch (1967). A range of bureaucratic structures was shown to exist highlighting that business ethics literature does not provide guidance as to the specific organisational ethics system that would be most appropriate for differing structures.

Chapters 4, 5 & 6 will examine three different organisations and their approach to enculturating ethics. Each will be described structurally, using the frameworks described in this chapter, and their ethical systems will be described using the frameworks developed in the previous chapter. Each organisation will then be analysed to establish the degree of fit existing between their ethical systems and organisational structures. The ethical system will then be evaluated in terms of the level of effectiveness achieved by the degree of structural fit achieved in each organisation.

Chapter 4

The Body Shop Australia

4.0 Introduction: The Body Shop International

The Body Shop International is a skin and hair care retailer operating in 49 countries with over 1700 outlets spanning 24 languages and 12 time zones. It is most widely known for creating a niche market for naturally inspired skin and hair care products. The Body Shop has stated publicly that business is primarily about human relationships. It practices a form of stakeholder management by involving them in decision-making with the expectation that this will impact favourably on the business. In 1999 The Body Shop was voted the second most trusted brand in the UK by the Consumers Association. Interbrand's 1997 survey named The Body Shop as the world's twenty-eighth top brand, second in the retail sector, and the UK's *Financial Times* 1998 report voted The Body Shop the twenty-seventh most respected company in the world (The Body Shop {b}).

Entrepreneur Anita Roddick founded the organisation in 1976, retailing home made naturally inspired personal hygiene products with minimal packaging. The Body Shop rapidly evolved from one small shop in Brighton on the South Coast of England, selling only twenty-five hand-mixed products, to a worldwide network of shops. Franchising allowed for rapid growth and international expansion as hundreds of entrepreneurs worldwide bought into Roddick's vision. The company actively campaigns against human rights abuses; it has a publicised code against animal testing and, similarly, a code on environmental protection. According to its web site (www.uk.thebodyshop.com), the company is recognised as a leader in encouraging businesses to use their voice for social and environmental change. In 1996, The Body Shop was also the first international cosmetics company to sign up to the Humane Cosmetics Standard operated by many of the world's leading animal protection groups. Major customer-led campaign successes include the long-running fight against animal testing in the cosmetics and toiletries industry, which captured the public's imagination and led to the largest ever petition - of four million signatures - being delivered to the European Commission in 1996 (The Body Shop {b}).

The company, which is publicly listed on the London Stock Exchange, employs over 5000 employees worldwide. The Body Shop International operates as head franchisee in UK, USA, France, Germany and Singapore with the remaining forty-

three markets owned and operated by independent head franchisees (The Body Shop {b}).

4.1 The Body Shop International's Ethical Framework

The Body Shop is a stakeholder-led company, believing its success is dependent upon its relationships with all its stakeholders, including its employees, franchisees, customers, communities, suppliers, shareholders and NGOs. This is consistent with the stakeholder approach, as defined by Goodpaster (1991a) that identified the importance of stakeholders in the establishment and maintenance of corporate values. It is also consistent with the findings of Paine (2002) and Verschoor (2000b) that companies who adopt more ethical approaches can achieve success as defined by financial performance indicators. In 1995, the company put that belief to the test when it committed to its first social audit alongside its existing audits. The results were independently verified and published in the values report. The Body Shop values reports of 1995 and 1997 have been recognised by United Nations Environmental Programme and SustainAbility as trailblazing and ranked highest in their reviews of International corporate environmental & social report (The Body Shop {b}).

The Body Shop approach to ethical business operates on three levels:

- 1) compliance: opening up to defined standards of human rights, social welfare and worker safety, environmental protection and, where relevant, wider ethical issues like animal protection
- 2) disclosure: only through public disclosure can a real process of dialogue and discussion with stakeholders be achieved and the right direction charted for the future
- 3) campaigning: to play an active part in campaigning for positive change in the way the business world works, with the ultimate aim of making a positive impact on the world at large (The Body Shop {c}).

4.2 The Body Shop Australia.

Graeme Wise is the owner and managing director of Adidem Pty Ltd holding the head franchise for Australia from The Body Shop International. He opened The Body Shop in Australia with business partner Barrie Thomas in 1983. Their first shop opened in 1983 in Melbourne's CBD (G Wise 2000, pers. comm., August). By 2000, there were sixty-six stores across Australia, a mail order service, The Body Shop at Home direct selling network and Shopping via e-mail. There were thirty-nine shops in Victoria, Queensland, Western Australia, Tasmania and the Northern Territory; seventeen in New South Wales in a partnership agreement; plus two ACT shops and six in South Australia operating as a sub-franchise (The Body Shop 1999). All ventures are private companies owned and operated by Australian or New Zealand citizens. All franchisees in Australia and New Zealand contribute back to the community as corporate and private citizens. Apart from the major campaigns The Body Shop undertakes as a business group, individual franchisees are actively involved with community organisations aligned with the core values of the parent organisation, The Body Shop UK (The Body Shop, 1999).

The relationship between The Body Shop International and The Body Shop Australia and New Zealand is governed by a legal agreement designed to ensure the franchisee will follow The Body Shop's successful trading formula and maintain its stated ethical standards of responsibility to human rights, environmental care and animal protection.

4.3 Structural Characteristics.

According to Child (1986) organisations with a workforce in excess of 1000 should be denoted as a large organisation. The Body Shop can be considered to be a large organisation as it currently employs approximately 1000 personnel (The Body Shop 1999). This section will describe the characteristics of organisational structure of The Body Shop, consistent with Mintzberg's configuration model. Of critical concern are those structural issues that were put forward as determinants of an appropriate ethical framework.

4.3.1 Parts of the Organisation

The Body Shop is made up of a variety of different groups and is geographically dispersed across the entire country. As a franchise organisation each franchise holder owns the business as a separate legal entity. Whilst this may be the case in terms of the owner equity, the structure of the organisation follows traditional models that do not necessarily reflect independent ownership.

4.3.1.1 Strategic Apex: The actual strategic apex of The Body Shop is The Body Shop UK. The strategic apex has responsibility for the future of an organisation and introduces standardised policies and procedures for the entire organisation. The Body Shop Australia reveals that the mission statements, value statements, staff charter and codes of practice concerning animal testing, product content and supplier relationships are derived from the international headquarters, thus confirming The Body Shop UK as the strategic apex.

This study is concerned with the Australian operation of The Body Shop and its executive which be considered as the Australian strategic apex. This group includes the managing director Graeme Wise, team leaders, who have functional roles such as the director of HR, stakeholder manager, and the other franchise owners. This group modifies The Body Shop UK policies and adapts them for the Australian context. This is evidenced by the policies such as ‘Business objectives of The Body Shop Australia and New Zealand’, and specific community campaigns such as ‘Body image and self esteem’ and ‘Thumbs up for reconciliation campaign’ (The Body Shop 1999).

4.3.1.2 The Middle Line: The Body Shop Australia’s middle line group would primarily include all of the Franchisees and individual store managers. These groups implement the policies of the strategic apex, translating them into operational plans. (Mintzberg 1981, 1983)

4.3.1.3 Operating Core: The operating core of The Body Shop would be described as the frontline staff in the retail stores. This is also the largest identifiable group within the organisation.

4.3.1.4 Support and Technocratic Staff: The Body Shop Australia's support and technocratic group are located predominately in the head office. The majority of support functions are administrative and clerical in areas of human resources, training and development, social audit, and other groups including child care facilities, maintenance and purchasing. These first groups also have a clear technocratic function in that they are able to affect the work of the operating core through the design of such procedures as recruitment, selection, promotion and financial recording.

The Body Shop Australia also manufactures some of its own products for sale through the retail outlets and this group, along with warehousing, is also located in Melbourne. This suggests that the organisation is vertically integrated; it is not only a retailer, but also a manufacturer making and providing an internal market for its own products. It is debatable as to whether the manufacturing group should be seen as a separate operating core, or whether they are in fact part of the support staff. Mintzberg (1981, 1983) suggests that franchised organisations, of which he cites McDonalds as an example, are in fact machine bureaucracies. According to the managing director Graeme Wise, and reaffirmed through an almost unanimous view of the focus group, The Body Shop is primarily a retailer of cosmetic products. If we accept this view, its operating core is the retail staff and the manufacturing group would be classified as support staff.

4.3.1.5 Co-ordination of Work

According to Mintzberg (1998) work coordination is achieved either through direct supervision, standardisation or mutual adjustment. In larger structures this is typically achieved through a standardisation of either work process or individual skills. The Body Shop Australia's primary work can be described as selling cosmetic products. The characteristic of these products and their retail environment are clearly standardised as all Shops look largely the same and all the products, irrespective of location have the same content and packaging. This suggests that the organisation has standardised outputs. This is further emphasised by the training conducted by the organisation, co-ordinated by head office. According to the manager of human resources, frontline staff receive standardised training programs in selling and assertiveness techniques.

4.3.1.6 The Sixth Part of the Organisation: Ideology

Mintzberg (1998) identifies that every active organisation has a sixth part, which he refers to as ideology, encompassing the traditions and beliefs of an organisation, distinguishing it from others and infusing it with a distinguishable character. Bolman and Deal (1997); Brown (1998); Daft & Steers (1986); Deal and Kennedy (1982); McKenna (1999) and Schein (1997) refer to this as organisational culture. Mintzberg (1998) suggests ideology can also be standardised similarly to work processes. Thus the standardisation of norms is a major co-ordination mechanism where the workers share a common set of beliefs. What is clearly evident from the research conducted at The Body Shop Australia, and the organisation's own staff surveys, is that a high degree of mutual adjustment occurs, and the culture supports the core values of the organisation. Another characteristic of this culture is the high degree of formal qualifications held by staff: more than fifty per cent. This is consistent with characteristics of the professional rather than a machine organisation.

4.3.2 Grouping Strategy

The organisation appears to use a combination of departmentation strategies. In head office, functional grouping appears to be the norm with individuals teamed on the basis of shared expertise or function: human resources and maintenance are examples of groups in head office. The retail outlets are based on single unit grouping, using geographical differentiation, which brings people together on the basis of shared location (Daft 2000).

According to Daft (1995) organisations like The Body Shop, favour the combination of functional groupings at headquarters and geographic or market based groupings for delivery of the product so as to achieve greater responsiveness to market needs. However, as a mechanistic structure, the franchise system achieves efficiencies through product standardisation, irrespective of regional differences. Dessler (1986) describes this approach to design as a hybrid grouping structure. A hybrid structure contains elements of two or more grouping strategies. Typically, such an organisation has self-contained units operating either as a market (product) or geographic basis with several units being maintained as centralised functional departments. Daft (1986) and Robbins (1990) suggest that such structures are

preferred in unstable environments, are typically large in size, have interdependencies across function & product and pursue multiple goals. This seems to be consistent with The Body Shop Australia. As identified earlier its total staff numbers suggest it is a large organisation. As a vertically integrated organisation it has a high degree of interdependence across various functions and its combination of business and social responsibility objectives suggest multiple goals.

4.3.3 Size and Complexity

As identified earlier in this chapter, the retail staff is the single largest group, being the operating core of the organisation. Mintzberg identifies the operating core as the largest group of the mechanistic organisation. The work is typically routine, relatively simple and as a result is more mechanistic in nature. Differentiation is usually high in such organisations with clear vertical and horizontal differentiation. The grouping identified earlier is an example of such differentiation. Utilising Robbins' (1990) structural analysis questionnaire reveals that the organisation scores 27 of a possible 35 (27/35) on the question of complexity which suggests that employees recognise that the organisation has many sections and departments which is an indicator of horizontal complexity, consistent with bureaucratic structures.

4.3.4 Centralisation

Mintzberg (1983) suggests that in a machine organisation decision making power tends to be centralised with the strategic apex. An examination of The Body Shop suggests that the organisation is highly centralised. The owner of Adidem Pty Ltd, Graeme Wise, controls the organisation and with the other franchisees acts as the strategic apex. This does not mean that participative approaches to decision making are not practised at The Body Shop as there is strong evidence from the focus group that consultation is a critical feature of the organisation. Utilising Robbins' (1990) structural analysis questionnaire reveals that the organisation scores 24/35 on the centralisation score indicating that employees perceive the organisation as moderately centralised. This is not necessarily typical of a highly mechanistic structure in which a higher score would be expected. However, a possible explanation for this is the strong organisational culture identified earlier in this chapter. Vidaver-Cohen (1998) defined moral culture as the prevailing employee

perceptions of organisational signals regarding making decisions that have an ethical component. Given that the organisation has an organisational culture identified as cohesive, supporting organisational goals, it could be classified as a cross between a bureaucratic and clan culture. As identified by Brown (1998), these cultures are very similar, characterised by an emphasis on internal processes that create a sense of responsibility and ownership of decisions. The bureaucratic culture tends to emphasise consistency and following procedure with symbols, rituals and stories reinforcing this basic strategy. If employees perceive the decision making system as a reinforcement of the organisation's values, given their commitment to the organisation, it is likely they would not view these as controls imposed by higher management, thus accounting for the lower score in the centralisation measure.

4.3.5 Formalisation

To direct the work of its operating core, The Body Shop Australia appears to have substantial policies and procedures stemming from the mission statement, various charters and codes. Members of the focus group referred to various policies that directed their behaviour in terms of purchasing and occupational health and safety, which supports this concept. This is consistent with the machine organisation, which standardises work processes into routine tasks thus ensuring behavioural consistency.

Members of the focus group suggested that The Body Shop had become more professional in the past few years. They cited examples including: becoming more strategic in decision regarding products and the support of local action and community groups. This is consistent with the conclusion drawn above that the bureaucratic and clan culture combination can create the perception that formalisation is an expression of organisational values rather than strict rules. The manager of human resources confirmed this observation giving examples of greater clarity on HR policies such as making the policies more explicit and ensuring systems for compliance are established. This tends to suggest the organisation is becoming more formalised.

Results from the Robbins' (1990) structural analysis questionnaire reveal the organisation achieves only 22/35 on the formalisation score. Like the previous section of centralisation, this score is arguably lower than would be evident in a

mechanistic structure, however, it is suggested that culture evidenced by the employee's strong commitment to the organisation and its values, explains this lower score. As will be demonstrated in the next section, specific organisational mechanisms reinforce this perception that employees are working consistently with the organisational values rather than following rules or procedures.

4.4 Culture and Ideology.

A strong culture was evident in interviews conducted with individuals and focus groups, similar to the findings of The Body Shop's own staff surveys. According to Mintzberg (1981, 1983, 1998) organisations in which the ideology is dominant are referred to as 'missionary'. The norms of the organisation, its values and beliefs, are standardised amongst all its members. The missionary organisation seeks to preserve, extend, or perfect its stated goals or beliefs to ensure they are clear, focused and its members can easily identify with them. It seeks to provide inspirational objectives so that members develop such identifications. It is distinctive so that the organisation and its members are deposited into a unique niche where the ideology can flourish. As a result of the attachment to the ideology, they tend to resist any attempt to change it or interfere with tradition. The clan culture emphasises internal processes, such as participation and employee involvement, that create a sense of responsibility, ownership of decisions and thus greater commitment to the organisation. Whilst this would appear to be consistent with that of The Body Shop, according to Brown (2000) it would most likely be found in structures with higher degrees of autonomy, and changing but unthreatening environments. It has been argued that The Body Shop actually has limited discretion due to the prevalence of rules and regulations. Brown (2000) describes the bureaucratic culture as having similarities to the clan culture; however, its emphasis is on achieving consistency and stability. This type of culture supports a methodical way of completing the work of the organisation. The emphasis is on following procedure and practices with symbols, rituals and heroes reinforcing the basic strategy. This appears to be a closer description to the function of the culture in The Body Shop. According to Mintzberg (1998) the key design parameter for the missionary organisation is indoctrination through socialisation processes including formal and informal programs to develop and reinforce identification with the organisation's ideology.

As identified by The Body Shop's human resource manager (2000) and its managing director, Graeme Wise, many of The Body Shop's employees come to the organisation because of its public stance on the environment, animal testing and socially responsible practices. Thus new employees already identify with the mission of the organisation. The publication of statements such as the mission statement, staff charter and various codes allow members to identify with the mission. This is also reinforced through training and development (See section 4.5 below). The Body Shop has a clearly established niche. With the profile of founder Anita Roddick and the organisation's public values, it has established a unique culture, recognised by both internal and external stakeholders. This is supported by The Body Shop's human resource manager who gave examples of employees who left the organisation in pursuit of higher paying jobs, sought re-employment with them, citing the supportive nature of The Body Shop as the main reason for wanting to return. This suggests a strong identification and support for the organisation. The Body Shop's Community Development manager also provided an example of a motivational program that awarded improved performance within the retail outlets with opportunities to assist communities or partners in the less developed regions of the South Pacific. He described it as a tropical holiday with the opportunity to make a difference. Such programmes can be seen as reinforcing the culture giving employees the opportunity to further develop their commitment.

4.5 Training and Indoctrination

Mintzberg (1981, 1983) identifies the maintenance of ideology as a critical element in missionary organisations; moreover, Child (1986) argues that training and indoctrination are strategies that reinforce cultural control mechanisms. Mintzberg (1983) suggests that in mechanistic structures, training serves a more perfunctory role in reinforcing the efficiency systems; that is, training is predominantly limited to job related issues.

4.5.1 Orientation Programmes

According to The Body Shop's human resource manager the organisation has a significant training and development budget, [as a private company, financial details and other matters were not disclosed to the author] and new employees are socialised

through a two-day orientation programme that identifies critical policies, procedures and information concerning their specific work areas. The first half-day addresses the organisational values and ideology, with the remainder covering specific job related issues.

4.5.2 Training and Development Programmes

The training that occurs within The Body Shop can be seen as addressing both immediate job skills and reinforcing the ideology. According to Body Shop's human resource manager much of the training is directed at the operating core in enhancing job related skills. As identified earlier, these are predominately retail and selling skills. However training also addresses the organisational values in two specific ways. Firstly, The Body Shop has a group of internal trainers who conduct training programmes around selling skills, assertiveness communication, and leadership and supervision skills. These are based on training needs analysis, which according to The Body Shop's human resource manager, are firmly rooted in the core values of the organisation. She suggests that The Body Shop's values statement is used as a reference point to ensure compatibility. Secondly, workshops are conducted to reaffirm the values with all staff. While on-the-job training is not necessarily compulsory, the values training is compulsory for all employees. Development also occurs within the organisation with specific programs around values, programs to advance career opportunities, plus support is offered for formal study. Management training also provided for supervisory and executive staff in the Head Office along with programmes for managers of the retail outlets. Typically this training addresses skills such as: interviewing, appraisals, delegation, and strategic leadership. In this context we can identify such training as supportive, emphasising managerialism and existing efficiency systems.

The Body Shop appears to use a combination of strategies consistent with two of Mintzberg's configurations (1981, 1983). He suggests that in a machine organisation there is little training, development and indoctrination other than limited job related issues. This is also consistent with Rothwell and Kazanas (1990) who suggest that large mechanistic structures tend to develop 'cafeteria' type training, which refers to predetermined sessions irrespective of need. This appears somewhat consistent with The Body Shop in that it does have standardised training addressing retail and some

supervisory areas. However, the high level of indoctrination and the use of advanced educational methodologies such as training needs analysis linked to core values are more consistent with professional and missionary organisations.

4.6 Structural Configuration Conclusion and Ethical Systems Implications

Based on the description above it would appear that The Body Shop Australia is essentially a division of a larger organisation, The Body Shop International, however it is in a transitional phase. The Body Shop Australia's structural make-up is predominantly machine organisation with vertical integration and standardised procedures and products. However, its strong ideology typifies missionary organisations. The Australian division currently displays characteristics of both missionary and machine organisations. The strong ideology, predominately of professional people, reinforces the high levels of formalisation in the organisation. Comments by the focus group and managing director Wise identified the growth of the organisation in recent years and the need for The Body Shop to become more formal in its dealings. This is consistent with Greiner's life cycle model that suggests that following a significant growth period, organisations experience a crisis around the need for leadership and greater formalisation (Griener 1998). This is also consistent with Mintzberg's hypothesis that organisations need to change their internal characteristics to suit the external environment (Mintzberg 1981, 1983, 1998). As organisations grow greater complexity requires greater formalisation. Evidence has been presented that shows the organisation becoming more 'professional', which equates to greater levels of formalisation. In The Body Shop's case, the ideology can continue to play a significant role in reinforcing the required behaviour, however, the introduction of greater formalisation will need to be seen as consistent with the values of the organisation that drives the culture. If the operating core perceives new rules and regulations as bureaucratising or contravening these core values, employees will tend to resist such changes (Bridges 1996; Egan 1988). This may then undermine the strong relationship between the ideology and the objectives of the organisation.

Mintzberg (1998) identified a division of a diversified organisation will be given policies and procedures by its corporate headquarters that it will need to adapt to local conditions. It was identified earlier that The Body Shop International operates

according to three ethical principles: compliance, disclosure and campaigning. Given Mintzberg's hypothesis concerning the diversified organisation, as a division structured as mechanistic organisation, The Body Shop Australia would follow the same basic approach.

Any ethical system needs to be based around these concepts of values and ideology. Rigid codes of conduct, whilst consistent with the mechanistic structure, will be difficult to institutionalise if they are not viewed as consistent with the core values of The Body Shop. The enculturation strategy, the use of existing socialisation and training, will continue to be of critical importance. This type of organisation will need to balance a principled approach with clear written documentation. In this way such policies are seen as values driven with the written policies as means of ensuring achieving those values.

4.7 The Body Shop's Ethical Process

The Body Shop approach to developing an ethical culture is an amalgam of several policies which include: mission statement, charters, codes of practice and public actions including the evaluation strategy 'social audit' and support of community projects. These have the effect of establishing the values of the organisation and providing the basis for its culture. The organisation does not currently have a specific code of ethics or a policy exclusively dealing with ethics; however, it is contention of this thesis that the organisation does have in effect an ethical framework. As a result of the social audit completed in 1998 a committee was formed to examine the development of a code of ethics. During the data collection period, this was in draft form as a code of conduct and is featured in the discussion below.

4.7.1 Mission Statement and Codes

The Body Shop Australia adopts the policies and procedures established by the parent company in the United Kingdom, consistent with the concept of Mintzberg's diversified organisation. A number of formal organisational policies can be identified as having ethical dimensions; the mission statement, the staff charter, the value statements relating to staff behaviour, the trading charter, the environmental policy and the against animal testing policy. The Body Shop's values, vision and ethical

principles are documented and formally set out in several sources including internal publications, texts and via the World Wide Web. These documents are international principles that apply to all employees and commits The Body Shop:

- To dedicate our business to the pursuit of social and environmental change.
- To creatively balance the financial and human needs of our stakeholders: employees, franchisees, customers and suppliers.
- To courageously ensure that our business is ecologically sustainable, meeting the needs of the present without compromising the future.
- To meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect
- To passionately campaign for the protection of the environment, human rights and civil rights, and against animal testing within the cosmetics and toiletries industry.
- To tirelessly work to narrow the gap between principle and practice, while making fun, passion and care part of our daily life (The Body Shop{c}).

The Body Shop's charter, developed by staff in the UK in 1989, identifies and commits staff to four broad principles:

- We care about humanising business community: we will continue to show that success and profits can go hand in hand with ideals and values.
- We will demonstrate our care for the world, in which we live, by respecting fellow human beings, by not harming animals, by working to conserve our planet.
- Honesty, integrity and caring form the foundations of the Company, and should flow through everything we do.
- The Body Shop's goals and values are as important to us as our products and our profits (The Body Shop{c}).

There are numerous Statements of principle and practice in The Body Shop's trading charter:

- We aim to achieve commercial success by meeting our customers' needs through the provision of high quality, good value products with exceptional service and relevant information which enables customers to make informed and responsible choices.
- Our trading relationships of every kind with customers, franchisees and suppliers will be commercially viable, mutually beneficial and based on trust and respect.
- We support long term, sustainable relationships with communities in need.
- We will demonstrate our care for the world in which we live, by respecting fellow human minority groups, women and disadvantaged beings, by not harming animals, by working to conserve our planet
- Honesty, integrity and caring form the foundations of the Company, and should flow through everything we do.
- The Body Shop's goals and values are as important to us as our products and our profits principles (The Body Shop 1999).
- We will pay special attention to those peoples who are socially and economically marginalised.
- To dedicate our business to the pursuit of social and environmental change
- To creatively balance the financial and human needs of our stakeholders: employees franchisees customers and suppliers.
- Our purchasing will be based on a system of screening and investigation of the ecological credentials of our finished products, ingredients, and suppliers.
- We institute appropriate monitoring, auditing and disclosure mechanisms to ensure our accountability and demonstrate our compliance with these principles (The Body Shop 1999).

The Body Shop in Australia does have a specific objective that adds to The Body Shop International's range of principles and values:

- To develop The Body Shop to be the best retailer in Australia through optimising and directing all of The Body Shop functions to that principles (The Body Shop 1999).

This key goal is set out in a formal business objectives document that also outlines particular vision statements including:

- A company where we know what we say is fact. Where we live everything we say.
- A company without hypocrisy. Where we 'walk our talk' not 'talk our walk'.
- A company which makes a difference through: its people, its financial resources, its standing and influence in the community principles (The Body Shop 1999).

By:

- being actively involved in social issues
- raising community awareness on social issues both on a local and on a global scale
- acting as a role model for other companies and individuals document principles (The Body Shop 1999)

A number of other vision statements relating to relationships with staff and behaviour as employers are also contained in the business objectives document.

These include:

- A company whose staff understand and share the company's philosophies.
- A company of which staff are proud.
- A company whose staff enjoy coming to work each day. Who feel their work is a good and positive part of their life and not just a way of earning the means to stay alive.
- A company which is constantly evaluating itself and seeking better ways of operating.
- A company of friends principles (The Body Shop 1999).

4.7.2 The Body Shop's Evaluation Strategies

The Body Shop Australia engages in extensive evaluation of work practices, organisation culture, stakeholder perspectives and the commitment to the values of the organisation. The culmination of this evaluation was the release of the document the 'New bottom line' in 1998, which detailed the results of a social audit, an environmental statement and an animal protection statement. The decision to

undertake such an audit needs to be seen in the context of the franchise agreement. The Body Shop UK first committed itself to an ethical auditing process at the beginning of 1994, a combined environmental and social audit. The organisation chose to follow the European Union Eco-management and Auditor regulation, as at the time, it was considered the most rigorous, comprehensive and rational approach available (The Body Shop {b}). The Body Shop UK published three independently verified environmental statements in 1992, 1993 and 1994.

In January 1996 The Body Shop UK published an integrated statement of its ethical performance followed by a second statement in 1997 with a refined approach to ethical reporting incorporating social, animal and environmental protection issues. Specific chapters were dedicated to stakeholder groups demonstrating a holistic approach to the monitoring, auditing and reporting on the company's performance against its stated targets and ethical policies. Each chapter presented a summary of the company's stakeholder consultation process and key performance indicators. The 1997 report included consultation with employees, international head franchisees including Graeme Wise and Barrie Thomas, UK franchisees, customers, suppliers, local community groups and shareholders (The Body Shop {b}).

4.7.3 The Body Shop Australia and New Zealand: 'The new bottom line'

According to Graeme Wise, the initiative of The Body Shop International through its various audits, was the major impetus for the development of a similar process for The Body Shop Australia (and New Zealand). He stated that the audit process was seen as a critical strategy in determining whether The Body Shop Australia (and New Zealand) was meeting its business and social objectives. He also stressed that it was a way to demonstrate to key stakeholders, including employees, that the organisation was serious about its stated objectives. The decision to publicise the results as the document 'The new bottom line' was also seen as demonstration to the wider business community of the importance of social audits as an evaluative tool (G Wise 2000, pers. comm., August).

4.7.4 The 'New Bottom Line' process

The approach to the audit, as confirmed by director Wise, was based on The Body Shop International's model. A two-day brainstorming session was organised for the franchisees and the directors in 1997. David Wheeler and Simon Raddick, from the New Economic Foundation in London, facilitated discussion concerning the types of values, questionnaires and stakeholders to be evaluated. It was agreed that some of the measures from the international study would be replicated with a stronger emphasis on social objectives and internal perceptions. Twenty-four focus groups were established across Australia and New Zealand to discuss issues arising from the seminar and the results used to prepare quantitative research instruments for further analysis. (The Body Shop 1999)

The two most substantial data collection components were surveys of employees and customers. An attempt to survey all employees as at 24th August 1998 met with an 85 per cent response rate or 773 completed returns. Eight thousand customer self-administered questionnaires were distributed between 6 November and 8 December 1998 across all shops in Australia and New Zealand. In all 1151 completed questionnaires were returned. In addition to the survey, customer focus groups were established to consider in more depth experiences and perceptions of The Body Shop's performance against its ethical objectives, as represented by its mission statement and various charters. [These were facilitated by an independent consulting group]. Thirty-five suppliers were also invited to take part in a pilot study of which twenty-six accepted; in addition, eight local suppliers attended as a focus group and three were personally interviewed (The Body Shop 1999).

It is important to note that The Body Shop's manager of stakeholder development, who oversaw the social audit with the then Company Director Barrie Thomas, completed a two-week social audit course at the Institute for Social Ethical Accountability in London, an international professional organisation committed to strengthening social responsibility and ethical behaviour in the business community and non-profit organisations.

Consistent with the approach adopted by The Body Shop International, The Body Shop Australia's 'The new bottom line' was independently audited by Eva Cox, an

academic and consultant from Sydney. A verification team comprising seven members ranging from ethicists to lawyers and academics, examined at the verification process providing any greater validity (The Body Shop 1999). The main features of the published document were the social audit report, which included descriptions of the research methodology, major findings and a specific section identifying targets for all the year 2000. Of specific relevance to this study was the finding that thirteen per cent of employees experienced, or perceived, ethically corrupt behaviour at The Body Shop Australia (The Body Shop 1999). A specific target was then established to reduce this perception or experience, to be achieved in the year 2000, through the development of a code of ethics or code of conduct.

4.7.5 Code of Conduct Development

Project teams consisting of a franchisee and support staff were established to address each of the specific targets identified in the social audit. For the code of conduct a committee comprising the Canberra franchise owner, the manager stakeholder development and representatives from various Body shop groups was established to identify the common ethical problems faced by employees. The committee conducted a general analysis of Body Shop policies, collected examples of codes from other organisations as a basis for comparison and identified that no specific ethical guidelines were present. They concluded that a code of ethics, agreed to by the managing director, franchisees and employees was needed to underpin all decisions on social issues, environmental issues, financial matters and the working environment. They also identified an implementation strategy that included reaching agreement on the ethical codes through a participative approach, preparation for training and the communication required, so as to imbed the principles throughout the organisation. A delivery date objective of the Code to all staff was set as 2 March 2000.

Between November 1999 and January 2000, a questionnaire was sent to all staff seeking their assistance in the development of the code through the participative feedback. The information collected identified the three fundamental values of employees as: honesty, respect and care. According to The Body Shop's stakeholder development manager, this was the starting point of the ethical code. Interested staff were asked to volunteer for a committee responsible for drafting a code of ethics.

Four employees were appointed to the committee along with the co-sponsors, the stakeholder development manager and the Canberra franchise owner from the first committee. A document was developed called *Guidelines for establishing a code of conduct for The Body Shop Australia* that provided critical information to this committee. It included defining what a code of conduct is, its purpose, how codes should be developed using a consultative process, identifying people in The Body Shop who should be involved, how the code should be monitored and measured and a statement concerning the importance of compliance. This information was the result of research conducted by the first committee. A draft code of conduct with three values of honesty, care and respect, as the overriding framework, along with 13 elaborative statements were disseminated to staff for comment in September 2000 (in conversation, stakeholder development manager, August 2001).

7.7.6 Consultation

Consultation is a critical component of the organisation that is supported by Graeme Wise. This is evidenced by the fact that the social audit process endeavored to survey all staff, not just a statistical sample. In addition the high number of disseminated customer questionnaires suggests a participative approach. The development of the code of conduct further supports this contention with interested parties being invited to join the committee. According to The Body Shop's stakeholder development manager, staff were kept informed of the code's development and had opportunity for direct input through the staff newsletter and through the email system.

4.7.7 Training and Development

Training and Development is a major function within the organisation. As identified by The Body Shop's human resource manager, training needs analysis is conducted with reference to the core values. This not only addresses job related issues such as customer service, but also reinforces the strong cultural affinity of the organisation. Training and development is argued by Carmichael and Drummond (1989); Driscoll and Hoffman, 1999; Ferrell, Fraedrich and Ferrell (2002); Francis (2000); Paine (1994) Trevino and Nelson (1999) and Verschoor (2000a) to be an integral part of an organisation's overall culture. Driscoll and Hoffman (1999) argue that training and development is a critical strategy in establishing a culture that enables employees to

talk about ethical issues. The Body Shop Australia's approach to ethics training appears consistent with the concepts outlined in Chapter 2. The two-day orientation programme which establishes the organisational values is clearly consistent with Connock and Johns (1995), Longstaff (1994) and Trevino & Nelson (1995). It establishes the values of the organisation and demonstrates how organisational policies and procedures, identified earlier in this chapter as the various Body Shop charters, enable the values to be implemented on a day to day basis. As identified by Child (1986); Daft (2000); Hall (1986), Harvey and Brown (2001); Robey & Sales (1993) and Schein (1987) such programmes are critical in the socialisation process and thus the establishment of an organisational culture. According to the manager of human resources, a feature of this orientation process is the importance of discussing the values of The Body Shop and the importance of commitment to them. This can be seen as an avenue of encouraging discourse about ethical dilemmas. This was identified by members of the focus group as a normal practice in the organisation. Farrell, Fraedrich and Ferrell (2000); Francis (2000); French and Granose (1996); Preston (1996); Richie (1996) and Trevino and Nelson (1999) attested to the importance of discourse as a key process in establishing that ethical issues can be raised and discussed within the organisation, supporting the view that The Body Shop Australia's approach can be argued as effective.

The use of training in management and selling skills can be seen as consistent with the Mintzberg (1998) discussion of the function of training in mechanistic organisations in that it serves to reinforce the rules of the organisation, previously identified as the various charters of the organisation. The use of the values-based approaches and ongoing discourse regarding these values in The Body Shop Australia has resulted in the members of the organisation seeing these charters or codes, not as rules or regulatory requirements, but as values to live by. This is consistent with the importance of cultural strategies as a means of reinforcing organisational objectives. The Body Shop Australia's culture, as evidenced by responses of the focus group, demonstrates a high degree of cohesiveness with clear characteristics of both bureaucratic and clan culture which emphasises both efficiency and commitment to the organisation. This reflects Kohlberg's research into the effects of a moral culture, consistent with greater formalisation within a social setting, as the basis for encouraging more ethical decision making (Vidaver-Cohen 1998). This is also consistent with the conclusions drawn earlier in this

chapter that The Body Shop Australia's structure is in transition from missionary to a machine organisation. This would account for the clan culture emphasising values and the bureaucratic culture of following rules and procedures.

4.7.8 Support Mechanisms

As identified by the human resource manager, The Body Shop uses standard HR policies such as discipline grievance procedures and performance appraisal interviews as the basis for performance management. Other support mechanisms include compliance programs such as those identified by which high performing retail outlets build reward points that allow them to contribute to community programs in South Pacific regions. Another example, also cited earlier in the chapter is that of employees being permitted and encouraged to work up to 8 hours per month in a nominated community programme. This is clearly a structural issue because it can be seen as not only affecting the standardisation of work practices in the organisation, but also a method of reinforcing the culture of the organisation. This is clearly consistent with the concepts concerning the use of positive and negative motivation strategies as a means of reinforcing the ethical agenda. As previously identified in this chapter, monetary rewards such as salary are not necessary the prime factors in determining work performance, as evidenced by examples from the focus group and from the human resource manager. This appears to be consistent with the strategies of linking ethical issues to performance objectives and consistent with Drummond & Bain (1994); French and Granose (1995) and Hoffman (1995) who advocate systems of reward and punishment contingent with performance, to encourage and discourage appropriate and inappropriate behaviour. Ferrell and Fraedrich (1997) suggest that when employees comply with organisation standards, their efforts be acknowledged and rewarded through mechanisms such as public recognition, bonuses raises and other forms of reward. This is consistent with the methods used by The Body Shop Australia.

4.7.9 Ethical Dispute Procedures.

Other than existing grievance procedures, no specific policies exist to guide staff through the decision-making process or direct staff as to how to settle an ethical dispute. An examination of the proposed code of conduct does include several

measures that may facilitate ethical resolution. According to the stakeholder development manager, the code of conduct will have on its reverse side as having a cross referenced list of relevant policies and procedures so that any employee confronted by an ethical dilemma, as defined by the code of conduct, can immediately refer to the specific human resource policy, or purchasing policy, that would address the problem. In the original draft document covering the code, the establishment of an ethics committee to deal with unresolved dilemma was canvassed, however, the process has yet to be finalised.

4.7.10 Structural Changes

The Body Shop Australia has a clearly defined functional group headed by the manager stakeholder development, who was identified earlier as not only having prime responsibility for the development of the code of conduct, but also completed a two-week social audit course at the Institute for Social Ethical Accountability in London. As identified above, it is the view of The Body Shop that no formal mechanisms such as ethics officers or ombudsperson currently feature as part of its structure. According to Wise and the human resources manager, any ethical dilemmas are expected to be discussed informally with immediate supervisors, or if the employee feels the issue is very sensitive, they can approach Graeme Wise directly. Members of the focus group commented that Graeme Wise was approachable and that they would have no hesitation in doing so with sensitive ethics issues that they felt could not be resolved at their immediate job level.

4.8 Analysis of The Body Shop's Ethics Framework.

Having outlined the various components that make up The Body Shop's ethical framework, the following sections will analyse the appropriateness of these components given the structural configuration identified earlier in the chapter.

4.8.1 Classification of the framework

The Body Shop's ethical framework can be described as encompassing a set of principles from which more specific codes of conduct have been developed. The organisation has used traditional forms of socialisation and education to reinforce the

value system that has seen the development of a supportive culture or ideology. This is consistent with the combination of an aspirational and formalised behavioural code.

The mission statement and the staff charter provide statements of what the members of the organisation value and the desirable characteristics of staff. These are as follows:

The mission statement of The Body Shop is:

- To dedicate our business to the pursuit of social and environmental change.
- To creatively balance the financial and human needs of our stakeholders: employees, franchisees, customers and suppliers.
- To courageously ensure that our business is ecologically sustainable, meeting the needs of the present without compromising the future.
- To meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect
- To passionately campaign for the protection of the environment, human rights and civil rights, and against animal testing within the cosmetics and toiletries industry.
- To tirelessly work to narrow the gap between principle and practice, while making fun, passion and care part of our daily life (The Body Shop {b}).

Principles 1, 3, 4 & 5 refer to a set of principles that establish environmental and social objectives. The use of terms such as ‘courageous’ ‘meaningful’ ‘honest’ ‘fairness’ ‘passionately campaign’ and ‘tirelessly work’ refer to the characteristics or values that members of The Body Shop are expected to demonstrate. The use of values and character-based statements is consistent with virtue or Aristotelian ethics (Solomon 1996). According to Donaldson (1989) and Trevino and Nelson (2000) in virtue ethics, community or the dominant group defines character focusing on the integrity of the moral actor rather than the act itself. Typically these emphasise principles such as honesty, integrity and fairness as the basis for guiding action. Child (1986) Schein (1997) and Soloman (1996) cite similar characteristics as being part of the organisation’s culture. This suggests that The Body Shop’s mission

statement is a set of guiding ethical principles from which two outcomes are identified. Firstly, it is the basis for more formal codes of conduct and, secondly, it influences behaviour through organisational cultural mechanisms.

Aspirational codes provide guidance or statements of values and typically commit organisational members to achieving these, but without specific details as to how. Codes of Conduct on the other hand are specific to individual action, prescribing behaviours are acceptable and those that are not. The prescriptive natures of codes of conduct include examples such as policies on gift giving, or procedures for reporting fraud. The Body Shop's series of charters and codes commit the organisational members to specific behaviours. Members of the focus group gave examples of how the purchase of cleaning products, to be used within the organisation, was governed by the environmental charter that prohibited the purchase of various products. In this case the cleaner 'Domestos' was identified as banned by the charter due to its harmful chemical contents. A further example was given of raw materials purchasing which required investigation of suppliers and their materials, to ensure compliance with The Body Shop's trading charter.

This has two identifiable implications. The code itself achieves compliance through clear statements of what can and cannot be done. This is consistent with the normative nature of codes of conduct and as identified appropriate for organisations that rely on rules and regulations as a means of standardising behaviour of compliance-based approaches. Secondly, such codes reaffirm the mission of the organisation to the employees who see that such ethical policies are real values of the organisation. This then reaffirms the ideology or organisational culture. This clearly suggests that the organisation is using a combined aspirational and compliance based program, similar to that advocated by Connock and Johns (1995), who argued that ethical systems need to be based on both values and prescriptive rules and regulations.

„An ethics framework consists of more than just a code of ethics. As Longstaff (1994) suggests, simply producing a code of ethics does not necessarily commit the organisation to ethical behaviour. An ethical framework must be based on a statement or outline of the ethical principles, in addition to strategies designed to communicate these to the organisation, methods of enculturation which include

training and development, socialisation, structural mechanisms such as dispute procedures, ethics officers and an on-going evaluation process.

As identified in the beginning of this chapter, The Body Shop displays the characteristics of a missionary structure in a state of transition to a machine organisation (Mintzberg 1981, 1983, 1998). The key part of a missionary organisation is its ideology, whilst for a machine organisation, rules and regulations are the means by which behaviour conformity is achieved. The Body Shop has clear evidence of a values or clan culture thus conforming to the missionary organisation. However, as identified by managing director Wise, The Body Shop's human resource manager and members of the focus group, headquarters has become more professional, increasing the formalised aspects of the organisation through greater levels of rules and regulation that Child (1986), Daft (2003) Hatch (1997) and Robbins (1990) have deemed necessary as organisations grow more complex.

4.8.2 Behavioural Conformity through Cultural Mechanisms

Mintzberg (1998) has identified the ideology of the missionary organisation to be the key part in ensuring behaviour conformity. He has identified several critical factors that ensure the maintenance of the culture. These were identified as the role of leadership in the establishment of an ideology committed to organisational mission, the development of ideology based traditions and sagas and the reinforcement of ideology through training and socialisation of its staff. Connock and Johns (1995) identify that espoused organisational values serve three important purposes. Firstly, they supply clear descriptive and prescriptive parameters for behaviour. Secondly, they are helpful in attracting suitable employees and deterring others and thirdly, they generate mutual confidence among suppliers, customers and shareholders. Evidence from the case research seems to support Mintzberg and Connock and John's contentions. The Body Shop's human resource manager suggested that many employees are attracted to the organisation because of its public position in the environment and animal testing. Managing director Wise agrees that his personal leadership is crucial in demonstrating to employees and to external stakeholders that such values are real to the organisation and expected of employees. The importance of strong corporate values and ethical leadership in establishing ethical behaviour and a cohesive ethical culture has been previously established.

4.8.4 Cultural Measures

Child (1986) and Robbins (1990) identified that cultural mechanisms can be a highly successful substitute for written rules and regulations as a means of controlling or directing behaviour. He identifies the critical policy areas of staff selection, socialisation and ongoing communication of the desired behaviour as critical processes in culture establishment and maintenance. The Body Shop's social audit report examined employees' views on a range of topics that sought to measure aspects of its organisational culture. Ninety-one per cent of staff agreed that they were proud to tell others they were part of The Body Shop. Of the eight statements included in the review that related to trusting The Body Shop as an organisation, the positive responses never fell below eighty per cent. The most positive levels of agreement related to The Body Shop's compliance with environmental guidelines, ninety-four per cent detailing the need to check where the products had come from and ninety-three per cent identifying the use of high standard ingredients. Eighty-nine per cent of respondents trust the organisation to be committed to social change and to stick to The Body Shop's stated principles. Eighty-six per cent believe the organisation would be trusted to act ethically in its business dealings and finally eighty-two per cent believe that the organisation was a fair employer (The Body Shop 1999).

As a measure of the internal environment the survey identified that sixty-one per cent of staff felt that they could trust colleagues feeling secure in discussing personal issues with them. As a measure of the cohesiveness of the culture eighty-nine per cent of employees said that they worked with people they are respected and that this was an important reason for working at The Body Shop. Seventy-eight per cent of employees believe that staff mostly share in the values of the organisation, however, almost twenty-five per cent of the staff believe that the values and vision have become secondary to the issue of sales. In other measures of the cultural cohesiveness, ninety-one per cent of staff were proud of their organisation and eighty per cent believed the staff were understood and shared the company's philosophies (The Body Shop 1999). These findings were echoed by the focus groups discussion that emphasised a strong commitment to the organisation, its beliefs and values. There was a clear sense among the members of the focus group that The Body Shop was different to other organisations. Several compared their experiences to previous

employers and used terms such as caring, people-focused and respect to describe The Body Shop environment.

This evidence strongly correlates with Mintzberg (1998) as characteristic of the missionary organisation. As identified earlier the establishment of a sense of mission is critical. Both The Body Shop's own surveys and the findings of the focus group support the notion that that The Body Shop has a mission greater than being just a retailer of cosmetic products. This message is clearly established by managing director Graeme Wise who sees his own leadership role as, not only role modelling appropriate behaviour within the organisation, but demonstrating the benefits and necessity of socially responsible activities to other stakeholders, competitors and non-related organisations. Thus we see consistency between the importance of the charismatic leader and the establishment of the ideology.

The second stage of development of culture through traditions and sagas is also clearly evident (Schein 1987). The high profile of The Body Shop International's founder Roddick and the positive publicity that has surrounded this organisation, clearly establishes a saga or a history of the organisation as a socially responsible company. Further examples of actions and events that reinforce the mythology which underpins the strong culture of The Body Shop are: the support of key actions in Australia by the managing director Graeme Wise and former director Barrie Thomas, such as indigenous developmental programs in the Northern Territory, or as one focus-group member identified, an award given to Graeme Wise for support to a local community group; not publicised in the media, it became known internally within the organisation (The Body Shop 1999).

The reinforcement of ideology is also evident in an example cited by both the focus group, and by the human resources manager: new employees were attracted to the organisation because of its value systems. This allows staff selection to occur on the basis of fit. The processes of socialisation and indoctrination also are evident within The Body Shop Australia as new employees are given an introduction to the values of the organisation during their orientation program. Other training and development is firmly based on the values of the organisation and specific value training regularly occurs for all employees. These examples are consistent with the strategies regarding the role of ethical leadership as role modelling behaviour, the importance of training

and socialisation strategies as a means of reinforcement. Coupled with the organisational culture strategies they provide a means of not only substituting for levels of formalisation, but also reinforcing cohesiveness and commitment to stated organisational principles and values.

4.9 Structural Analysis.

The Body Shop Australia is predominantly a missionary organisation, but is structured as a machine organisation. The appropriate ethics strategy for such configurations is a strategy based around an aspirational framework consistent with the key part of the organisation, the ideology. More formalised policies are employed to develop appropriate behaviours and ensure efficiency through coordination and the standardisation of work process by rules, policies and procedures. Clearly The Body Shop's ethical framework uses both an aspirational approach designed to provide guidance in ethical decision making by the use of a series of principles supported and a compliance approach through the use of separate codes that address how those values are to be interpreted in different aspects of the organisation. In this context we can conclude that in general it is an appropriate strategy for a mixed structure of missionary and machine organisation.

As identified above, in a professional organisation the operating core dominates the structure being staffed by professional employees who exercise a great deal of autonomy. According to Robbins (1990), formalisation is moderate to low with generally a decentralised decision making system for day-to-day operations. Missionary organisations achieve coordination of activities through standardisation of norms of the operating core and a secondary reliance on the standardisation of work (Mintzberg 1998).

4.9.1 Ethical Leadership at The Body Shop

A consistent theme that emerges in virtually all writings on institutionalising ethics is the importance of ethical principles and support at the strategic level. Powers and Vogel point out that management finds its *raison d'être* in organisational purpose and that corporate goals determine the general direction and criteria of business judgements, hence the importance of the corporate ethos (Hoffman 1996). This

seems to be in evidence at The Body Shop Australia with managing director Graeme Wise clearly setting the strategic commitment to a socially responsible organisation, ensuring policies are developed and adhered to through appropriate delegation and, crucially, role modelling the behaviour that reinforces the culture/ideology of the organisation. It is clear from the focus group interview that the leaders of the organisation, Graeme Wise and former joint owner Barrie Thomas, provide an example to members of the organisation consistent with the espoused values of The Body Shop. Members of the focus group described Wise as a man of integrity committed to the beliefs of the organisation and beyond. They portrayed him as a man of great character, and clearly stated that without him it was unlikely that The Body Shop Australia could pursue many of the social policies as demonstrated by its actions policy.

Wise recognises the importance of role modelling. He stated that one couldn't expect people to follow a set of values or rules if not adhered to by leaders. He suggests that the role of leaders is to demonstrate to others that it can be done. He identified that one of his personal, and therefore The Body Shop Australia's objectives, was to demonstrate to other Australian organisations that it is possible to be socially responsible and still provide acceptable returns to critical stakeholders or shareholders (G Wise 2000, pers. comm., August). The importance of an active role model was previously identified in two different contexts. Many theorists in organisational behaviour literature highlight the role of leadership to inspire others to follow, but what is also important is what top managers are seen to do, more important than what they may actually do. What top managers are seen to do will reinforce a particular corporate culture. This in turn will determine the way lower level personnel act and the way the organisation as a whole responds when ethical dilemmas occur.

According to Goodpaster (1991b) the institutionalisation of ethics depends first and foremost on leadership conviction expressed in action. Petrick & Quinn (1997) identify that managers and leaders can unwittingly engage in a variety of role related acts that either enhance or diminish ethical climate including: actions of personal gain outside the interests of the firm, unethical action which results in short term advantage but displaces direct cost and responsibility to those outside the firm, and

strict adherence to the letter of the current law (internal organisational and societal) which violates the spirit of the law.

Ethical leaders must model desired behaviour, and follow policies consistently, for them to mean anything to the organisation and its individuals. There is another, very practical reason why ethics are essential to strong leadership. That is because ethical behaviour is key to establishing the trust and loyalty that are at the base of all effective leader follower relationships (Bethel 1999). This was recognised by Wise with his statement that ‘you can’t expect others to follow unless you do yourself’ (G Wise 2000, pers. comm., August). Without trust, the contract between leader and follower collapses and the ability to lead, to inspire, to make a difference, is diminished. But a long-term investment in high ethics builds and reinforces the foundation on which an organisation is built (Bethel 1999; Scott 1998). The issue of trust was evidenced by an example raised by the focus group and with Graeme Wise. In September 1999 a managing director was appointed by Graeme Wise and Barrie Thomas, in response to the perceived need to be more professional in the financial dealings of The Body Shop. Within a few weeks the new appointee was making decisions concerning reallocation of roles, duties and retrenchments in a manner that was inconsistent with the culture of the organisation. As Wise identified, the staff perceived that he agreed with these moves, because they did not see any evidence from Wise that he did not. Wise expressed surprise that his staff would have felt this way. This further suggests the importance for the leader to continuously demonstrate behaviour so as to maintain trust with the organisational members (G Wise 2000, pers. comm., August).

According to Drummond and Bain (1994) and Scott (1998), the key to being an effective ethical role model for employees is to demonstrate consistency between one's ethical philosophy and ethical behaviour. These examples highlight that perceived variations between the two can negatively impact on the organisational culture. Secondly, one of the principal reasons for the inability of ethical cultures to develop is the public behaviour of its senior officers. Employees, other constituents, stakeholders and customers need to believe that the organisation is committed to its values and ethical standard. Nothing destroys an ethical culture quicker than the discovery that executives and board members failed to adhere to the standards they expected of their subordinates (Newton 1995). As demonstrated by members of the

focus group, the public commitment by Wise and former partner Thomas to the values of The Body Shop supports the notion that public behaviour by senior executives can influence the values of employees in a manner consistent with the stated values.

According to Campbell & Tawadey (1992) the leader moulds the organisation's value system through the creation of a philosophy. Trevino and Nelson (1995) highlight that in surveys of practising managers, honesty and competence emerge as the most important qualities identified as essential to good leadership. Leadership is crucial to the organisation's ethical culture, as integrity flows from the top, down. Ethical frameworks, irrespective of being aspirational or prescriptive, require degrees of changes to the organisation's structural components to provide the mechanisms by which the framework can be used by organisational members.

4.9.2 Consultation

As identified by Newton (1995) a critical factor in the success of ethical frameworks is the principle of participation, through the involvement of those to be governed by the code, in its development. This strategy is supported by organisational behaviour theory, and organisational change theory, which suggests that allowing people to participate in decision-making builds greater commitment and lowers resistance to change (Bridges 1993). We can conclude that the process of designing new policies, such as The Body Shop's code of conduct, emphasises a democratic approach with staff having the opportunity to contribute to the development. This strategy was consistent with principles outlined in Chapter 2 necessary for building commitment from organisational members.

4.9.3 Communication Strategies

Chapter 2 identified in detail the characteristics of an effective communication strategy that included creating awareness through written policies, notice boards and electronic systems such as email. A critical feature was the role of the senior executives in supporting the message so as to embed the values and demonstrate ongoing commitment. As identified earlier in this chapter The Body Shop Australia use a variety of communication mechanisms that can be seen as both formal and

informal. The distribution of documents such as the various charters is an example of formal communication strategies as outlined by Ferrell, Fraedrich & Ferrell (2000); Lagan (2000) and Trevino and Nelson (1999). The use of discussion groups and the discourse that occurs in The Body Shop Australia around the organisation's values, principles and the application of the charters is consistent with the examples cited by Hoffman, Driscoll and Painter-Morland (2001) of effective communication strategies that allow employees to openly discuss issues of ethical dimension.

The Body Shop Australia also uses communication mechanisms as advocated by Trevino and Nelson (1999), including internal email and websites. Both the Australian and international organisation have extensive sites, accessible by employees and the general public, detailing the organisation's history, its values, principles, charter and community activity. The manager of stakeholder development identified that employees were able to use the email systems for feedback regarding the draft code of ethics. This can be considered further evidence of the effectiveness of the communication strategy.

The role of the managing director and other public figures has been identified as an important part of the establishment of the organisation's culture. However, role modelling is also a key communication strategy in that it demonstrates commitment from executives to the stated principles. Focus group comments regarding the managing director as an inspirational figure is consistent with this concept which Hoffman (1995) and Lagan (2000) argue is a fundamental requirement of an effective communication strategy. The publication of the 'The new bottom line' can also be seen as a key strategy. As will be discussed as part of the evaluation analysis, Hoffman (1995) argues that the public disclosure of ethics and social audits communicates to internal and external stakeholders the effectiveness of the organisation's ethical system and establishes clear commitment. 'The new bottom line' document can thus be seen as an effective communication strategy

4.9.4 Structural Mechanisms

Ethical frameworks, irrespective of whether being aspirational or prescriptive, require degrees of change to the organisation's structural components so as to provide the mechanisms by which the framework can be used by organisational members. As

previously identified in section 4.12 of this chapter, specific mechanisms and formalisation changes such as an ethics committee, ethics officers or ethics resolution procedures, had not been formally incorporated into the structure. The research of numerous authors, including Driscoll and Hoffman (1999), Farrell (1997), Ferrell & Fraedrich (1997), Hoffman, Driscoll and Painter-Morland (2001), and Richie (1996), identified that without such formal mechanisms ethics strategies are likely to be undermined and staff begin to question the organisational commitment to the process. Farrell (1997) demonstrated that the lack of support structures is general characteristic of the Australian experience. However, the examples highlighted in section 4.12 of this chapter clearly demonstrate that these functions do exist within the structure at a formal level.

The manager stakeholder development and her administrative staff can be seen as a specific group with the responsibility for overseeing the values based programs and most recently the development of the code, coordination of the participative development program and dissemination of information concerning the code through internal newsletters and email systems. This is consistent with the role of ethics officers or groups, as a necessary structural characteristic of mechanistic organisations. This group has the responsibility for creating a written ethics policy that commits employees to specific behaviour. They standardise the work of others through formalisation. This is a technocratic function consistent with the key part of machine organisations, the technostructure (Mintzberg 1998). The Body Shop Australia is in transition from a missionary to a machine organisation. The development of more rules and regulations, as evidenced by the code of conduct and the comments of focus group members regarding the need for greater professionalism, is consistent with Griener's (1998) life cycle model which argues that as organisational complexity increases the need for more formalised processes also increases.

While the organisation has not introduced formal reporting mechanisms as part of an ethical system, The Body Shop's human resource managers indicated that individuals are advised to discuss ethical issues with their immediate superior or next line manager, with a process that can flow up to the managing director. This is consistent with the concept of chain of command. Not only is this an example of formal structural reporting lines but also rationality, thus demonstrating a moral dimension.

The use of existing reporting lines and policies and procedures as a means of addressing ethical concerns is an efficient use of existing resources. However, it may undermine system effectiveness, as it does not guarantee independence or anonymity and may dissuade employees from reporting ethics violations. This was not a concern when discussed with the focus group. This may be attributed to the strong cohesive culture of The Body Shop Australia. As identified by authors Child (1986), Daft (2001), Hatch (1997) and Robbins (1990) a strong organisational culture can be used as a substitute for formalisation.

4.9.5 The Body Shop Australia's Evaluation Process

As identified in section 4.12 of this chapter, The Body Shop Australia undertook an extensive social audit process that was published in 1998 as a formal document: 'The new bottom line'. This document is consistent with the concept of the social or ethics audit, advocated by Hoffman (1995) as a necessary process in the evaluation of ethics systems that include public disclosure. The Body Shop's approach highlighted a range of sensitive areas including environmental, raw materials, community programs and internal staff assessments, using a combination of interviews, questionnaires and inspections. The identification of sensitive areas is a common theme in the literature, as evidenced by Gray (1996); Lowery (1997) and Vallance (1995) and who argue that organisations need to evaluate their performance against the stated values and sensitive areas of the organisation. The methodology used to collect data for the social audit is also consistent with the approach advocated by Allen (1995) who identified similar processes as essential for validity. The examination of staff views and experiences, previously discussed in this chapter with respect to organisational culture, is consistent with Longstaff (1994) and Lowery (1997) who state the need to examine what people believe about the actual values of an organisation and the mechanisms designed to support them. In this way a values gap can be identified and the document used as an effective evaluative tool. It is also consistent with Harrison (2000) who describes the culture audit as a second type of ethics audit examining attitudes of managers and employees concerning the organisation's ethical orientation.

As the social audit was conducted before a conscious decision to develop a formal code of conduct, 'The 'new bottom line' appears consistent with Longstaff's values

audit (1994) and Harrison's (2000) and Lagan's (2000) contention that an ethics audit is a procedure that occurs prior to the development of an ethical system. They argue that the process is analytical and helps inform the organisation about its ethical climate. As identified earlier in this chapter, as a result of the staff surveys contained in The Body Shop Australia's audit document, further research into ethical issues was undertaken. This led to the development of The Body Shop's draft code of conduct. This seems to be consistent with Lagan's view of the purpose of the ethics audit. Given that The Body Shop Australia's social audit also includes a detailed financial analysis as well as statements of legal compliance, it can be seen to be consistent with the five recommended features of ethics audits outlined by Lowery (1997). This is similar to the ethical compliance audit outlined by Harrison (2000) that examines the extent to which an organisation is compliant with both regulatory and voluntary regimes. Examples were given earlier in this chapter of The Body Shop's various charters that commit the organisation to action, which can be seen as voluntary, such as the non-purchase of products, deemed harmful to the environment.

An area which is not examined in great detail in 'The new bottom line' is the third type of ethics audit advocated by Harrison (2000): a comprehensive analysis of organisational design and structure with a focus on structure, policies and procedures, communication and other strategies designed to support and encourage ethical decision making. Whilst policy issues were identified, issues of structure were not. This is consistent with the Hoffman (1995) findings in the United States and echoed by Farrell's (1997) research of Australian organisation that few address the need to alter organisational structure as part of the ethical system.

The decision of The Body Shop to use an external consultant to verify the process is consistent with the recommendations identified in the literature review that such a strategy has the advantage of ensuring a degree of independence and objectivity. Trevino and Nelson (1999) also argue that such consultants should have an understanding of ethical issues so as to increase relevance. It was identified earlier in this chapter that the consultant used by The Body Shop, Eva Cox, is a recognised consultant with experience in social auditing, however it is not clear from the information available as to her level of ethics expertise.

Perhaps a significant feature of the 'The new bottom line' was its public disclosure via a major launch at the Epoch Foundation [a not for profit organisation established to advance the concept of ethical and social dimensions in business] offices in Melbourne in 1998, and again to an international audience at the European Business Ethics Network social audit master class conducted at Nijerodne University, The Netherlands, also in 1998 [the author was present at both launches]. This is consistent with the argument proposed by Hoffman (1995) and by Hoffman, Driscoll and Painter-Morland (2001) that organisations need to disclose the findings of their social or ethical audits to the external environment, beyond immediate stakeholders. They argue that disclosure strengthens the performance of the organisation's ethics programme and has the advantage of reinforcing the principles through a clear demonstration of commitment. This concept was identified above in the analysis of the organisation's communications strategy concerning ethical principles. The Body Shop Australia's 'The new bottom line' is also clearly a formal organisational communication strategy that reinforces the ethical principles of the organisation. However its audience is not necessarily just the internal constituents and identified stakeholders of the organisation. As identified earlier in this chapter, according to managing director Wise, this document was published as a statement not only for The Body Shop Australia's key stakeholders, but also the wider business community to demonstrate the organisation's commitment.

4.10 Conclusions of The Body Shop's Case.

The Body Shop's approach to the development of an ethical framework has been built upon the policies and procedures established by the parent company, The Body Shop International. These policies have been modified, and on occasion extended, to suit Australian conditions. It has been identified that this is entirely consistent with the diversified organisation as described by Mintzberg, which represents the entire organisation, the Australian component being a division that is itself in transition from a missionary to a more mechanistic structure.

4. 10.1 Values Based Approach

The Body Shop Australia has a successful ethical framework largely due to the values established at an international level, being embedded throughout the

organisation, its policies and procedures. The Body Shop's approach is consistent with the mechanistic structural model outlined by Mintzberg (1998). The values and subsequent codes, as represented by the staff and purchasing charters, along with public policies against animal testing and the environmental principles, serve as normative values that then guide behaviour throughout the organisation.

4.10.2 Effective Awareness and Participation

The initial strategy of building awareness and ensuring participation was a major strength, as they are acknowledged as a means of establishing the conditions for major organisational change, are a feature of organisational development and organisation behaviour literature. This provided a basis for successful adoption of the code of conduct by Body Shop employees. Climate surveys and questionnaires conducted by the organisation in these early stages support this contention.

4.10.3 Effective Leadership and Delegation.

The leadership of The Body Shop, both international, and at national level with Graeme Wise and former director Barrie Thomas, has played a critical role in establishing the ethical framework within the organisation. They have role modelled appropriate behaviours and demonstrated ongoing commitment to the values of the organisation.

They also established a system of delegation based on joint responsibility. The directors, team leaders and franchisees took responsibility for the development of key policies in a manner that emphasised joint decision-making. Not only was this in keeping with the organisation's ideology, but also had the effect of increasing employee commitment. Key examples include the social audit process and the subsequent code of conduct development. In both cases individuals were not only committed to the tasks, but evidence of support and extensive training ensured an informed process. This is consistent with the principle of validity as discussed by Newton (1995).

4.10.4 Structural Consistency

The Body Shop presents a structural amalgam of missionary and machine organisation. In this case the combination of a normative based values approach, which includes moderate levels of formalisation through codifying the values, is concluded as an appropriate approach for the structure. This has been supported by formalised socialisation mechanisms and liaison devices such as training and development and committee structures that serve to promote the ideology, thus behavioural consistency and the informal communication which Mintzberg (1998) refers to as mutual adjustment. Its adoption of many of the policies and strategies of The Body Shop International is seen as entirely consistent with the diversified form, in which the international headquarters provide overall policy direction with the division, in this case The Body Shop Australia, modifying these to suit local conditions.

4.10.5 A Strong Ideology

A major factor in the success of The Body Shop's ethical framework is the culture of the organisation, identified earlier as bureaucratic with the commitment elements of clan culture. The Chapter identified the commitment of the members of the organisation to the stated values and the strategies employed: training and development, compliance strategies, participation in community programs, public actions and the role modelling of the leadership team to reinforce the ideology. This is consistent with Mintzberg's concept of ideology and how to foster and strengthen it as a structural imperative. As identified in the chapter, this has allowed the organisation to use lower levels of formalisation than would normally be found in a machine organisation.

4.10.6 The Body Shop Conclusions

The Body Shop Australia can be primarily classified as a machine organisation, but with significant characteristics of the missionary form, which emphasises ideology or organisational culture as a means of generating consistent behaviour. The organisation has developed a range of policies that employees referred to as principles and charters rather than rules or policies. The former were shown to be

consistent with the concept of codes of ethics, whilst the charters were actually shown to be prescriptive codes of conduct. It was argued that as predominantly a machine organisation relying on rules and regulations to insure behavioural consistency, the use of such charters was consistent with the higher levels of formalisation typically found in a machine organisation.

The Body Shop's organisational culture was found to be extremely cohesive and supported adherence to the charters as the bases for decision-making. This is consistent with organisational theory literature that identifies that strong cohesive cultures can emerge from highly formalised structures that reinforce employee compliance to organisational rules. The role of the managing director was found to be of critical significance not only in establishing the ethical system, but also as through role modelling reinforcing the organisation's standards through visible commitment. This is consistent with the literature on the importance of leadership and the establishment of strategic values in an organisation. The organisation was shown to have followed a conscious decision to pursue an ethics strategy. It used external consultants, generated internal ethics expertise by sending key team members responsible for the ethics framework to internationally recognised social and ethical education institutions in the United Kingdom.

The organisation was also demonstrated to have been proactive in the use of the auditing process as a means of determining the need for ethical standards through cultural or ethical climate surveys that included not only employees, but were extended to key external stakeholders. This was consistent with the strategies outlined by Harrison (2001) of using social audits as an analytical tool. It was also concluded that the organisation fell short of conducting a structural analysis to determine the type of its ethical system that should have been devised. However, it was identified that the organisation had used a participatory approach to develop its ethical system that reinforced commitment, and reinforced the already cohesive organisational culture. The Body Shop Australia's training and development, along with reward programmes, were the critical factors in the maintenance of the ethical system through cultural reinforcement.

The Body Shop Australia pursued a formalised approach to creating an ethical system emphasising standards of ethics as reflected through its charters and guiding

principles consistent with the compliance approach. As a result of the social audit it had begun the process of designing a specific code of conduct using participatory approaches. The systems used to support the ethics framework were found to be consistent with missionary organisation which emphasised culture and ideology, however, as was shown in Chapter 3 this can occur within mechanistic structures. As the organisation becomes larger and more complex, it will move by necessity, to even more formalised systems. It is likely that more traditional forms of reinforcement, such as limited training and reward systems designed to maximise efficiency, may undermine the strong cultural ethos that currently serves the organisation. The Body Shop Australia used an ethics strategy that was deemed to be in fit with its predominantly mechanistic structure

The Body Shop's case demonstrates how an organisation can develop a strong values based culture, despite being mechanistic in structure. The critical factor appears to be the clear, committed leadership of the organisation and the development of policies that are consistent with these espoused values. The problem for the organisation will be, as suggested by Child (1986), Daft (2000), Griener (1998) and Mintzberg (1998) as the organisation expands through growth in output, size and markets, greater complexity demands more formalisation that will increase the pressure to become more mechanistic. This could see the technostructure becoming the key part of the organisation reducing the impact of the ideology. It is likely that this would undermine the culture and thus the unique features of this organisation.

Chapter 5

The RMIT University Case

5.0 Introduction

The Royal Melbourne Institute of Technology (RMIT) was originally established as the Working Men's College in Melbourne in 1887, its primary aim to provide technical training. Over the years the college expanded becoming a multi-campus and multi-level educational institution (Murray-Smith & Dare 1987). During the 1980s its structure was clearly definable, with a technical and further education sector, designed to provide short to medium term courses aimed at individuals the work force and a college of advanced education that provided longer tertiary courses from diploma through degree to postgraduate and doctorate level. In 1992, following the restructuring of the tertiary education sector by the then Federal Labor Government, RMIT was granted university status on 1 July 1992 under the *Royal Melbourne Institute of Technology Act 1992*.

In 1995 RMIT embarked on a project to develop and implement a staff code of across the university. At this time organisation comprises diverse interest and professional groups, with differential relations to one another. This diversity and complexity will tend to increase, as the organisation becomes a global university, evidenced by the changing funding sources and its delivery of educational programmes to a wider international market. The need for an agreed set of ethical principles was identified and a system established and implemented. This chapter will examine the process of development of these principles, and in the light of the organisation's structure, evaluate the appropriateness of RMIT's system.

5.1 Structural Characteristics of RMIT University

RMIT, employing more than 3000 personnel (RMIT 1995) can be considered a large organisation consistent with Child's (1986) description of large organisations being more than 1000 employees. Large organisational size leads to increased structural complexity, which in turn leads to higher levels of formalisation or the reliance on rules and regulations to guide behaviour. This section will describe the characteristics of the university's structure using Mintzberg's configuration model (Mintzberg 1998). Of critical importance are the structural issues identified as characteristics of an appropriate ethical framework and its consistency with the organisation's structure.

5.1.1 Parts of the Organisation

RMIT is made up of a variety of different groups and is geographically dispersed over four separate campuses. Utilising Mintzberg's parts of the organisation the following can be identified (Mintzberg 1998).

5.1.1 The Strategic Apex: RMIT's executive areas include RMIT council, the vice-chancellor and four deputy vice-chancellors.

5.1.2 The Middle Line: RMIT's middle line group would include all faculty deans and head of schools or key learning centres. It would also include division heads of groups such as human resource management group (HRMG), RMIT International (overseas liaison group)

5.1.3 Operating Core: Clearly the operating core of RMIT are the academics and professional educators who have direct responsibility for the provision of the university's output: qualified graduates.

5.1.4 Support and Technocratic Staff: RMIT has an extensive support and a somewhat smaller technocratic group. The majority of support functions are administrative and clerical in areas of student administration, which keeps track of student progress and results. Other support areas include computer services, human resources and financial services. These groups have a clear technocratic function affecting the work of the operating core through the design of procedures, such as recruitment, selection, promotion, and financial recording. However, they should not directly affect the key work of the organisation which is the delivery of educational programmes.

5.1.5 Coordination of Work

According to Mintzberg (1981, 1983) the work of an organisation needs to be achieved either through standardisation or mutual adjustment. As previously identified in larger structures this is typically achieved through a standardisation of either work process or skills. RMIT's primary work can be described as the production of graduates. While appearing to be a standardised output, engineering graduates are different from business graduates or science graduates. Each has different knowledge

or skills as a result of their education and enters different work areas. A marketing graduate is not qualified to design a bridge, yet both are RMIT graduates. This suggests that the university does not have standardised outputs.

The university's operating core, the educators who teach the graduates, do so using a range of methodologies and approaches, ranging from behaviourist educational techniques such as lectures, tutorials, laboratory sessions and exams to interactive techniques based around reflective practice such as practicals, experiential workshops and residential courses, consistent with humanist and gestalt educational philosophies (Burns 1996). There appears to be no consistency between faculties and schools as to their approach to education. This suggests that the work processes of the operating core are not standardised. However, work processes appear to be standardised in the support staff groups such as student administration, computer services and maintenance as evidenced by the routine nature of their work. For example student results and grading are consistent across the university as are the procedures for recording results, booking rooms or requesting a computer repair service. Unlike the operating core the work hours of the support and technocratic staff are also standardised, usually from 9 am to 5 pm for each working day.

It would appear that the professionals who make up the operating core have the same sets of skills or knowledge within discipline groups. As an example, of the 35 academics in the school of management, all have recognised business or management qualifications. All teaching members of the school of accounting and law have accounting and or legal qualifications and similarly other specialist schools have academic staff with appropriate discipline-based qualifications. This suggests that coordination in the university is achieved through the standardisation of skills. According to Mintzberg (1981, 1983) such standardisation is evident where the operating core is trained professionals whose standards are set outside the workplace, predominantly through training or formal qualifications. This is consistent with RMIT's operating core. This is also consistent with the concept of the professional ethic being that such individuals already have a clear sense of ethical duty that is linked to their formal training and development (Preston 1996). This initial discussion suggests that RMIT has the characteristics of a professional organisation. The following discussion supports this contention.

5.1.6 Grouping Strategy

The organisation is essentially grouped using a functional grouping strategy, where people are brought together on the basis of shared expertise (Dessler 1986; Robey & Sales 1993). The faculties: applied sciences, art design and communication, business, biomedical health sciences and nursing, constructed environment, education language and community services and engineering illustrate this. The faculties are also relatively independent of each other with little day-to-day interaction. According to Mintzberg (1981, 1983) such functional groupings with relatively high independence are typical of professional bureaucratic structures. He suggests that universities, hospitals and consulting firms typify such structures.

As Daft (1995, 2001) suggests, within the separate functional groups individuals share the same expertise, technical language and standards, consequently, there can be difficulties in integrating across the organisation due to greater independence between the various groups. Daft (1995, 2001) suggests that strong cultures emerge within the functional groups based largely on the professional standards of the operating core. This is a concept supported by Mintzberg (1981, 1983) who identified that coordination of activities is primarily achieved through the standardisation of skills, the professionals with externally standardised knowledge and secondly, by norms, the professional culture of the operating core. This point was made in section 5.1.5 above.

5.1.7 Size and Complexity

An examination of the employment numbers reveals that the single largest group are the higher educational staff or the professional educators, previously identified as the operating core (Mintzberg 1998). Early sections described the university, as having a substantive support staff and technocratic staff where work is typically routine, relatively simple and thus structurally mechanistic. Parallel hierarchies were emerging, with bottom up democratic control or decentralised control in the professional operating core, and top down or centralised with little discretion in the support staff areas. This seems to suggest a complex organisation with decentralised and centralised areas of the organisation existing at the same time, along with both vertical hierarchy in the technocratic and support staff and fewer levels in the professional operating core (Mintzberg 1998).

5.1.8 Formalisation and Control

In reality, RMIT has few policies and procedures that control the work of the professionals in the delivery of education. The primary policies and procedures that affect the student-focused work of the operating core are job descriptions and specifications; however, these are relatively general specifying only duties and reporting lines. Hours of work, attendance and specific performance targets such as pass rates, are not formalised for the operating core. This is consistent with the concept of the professional organisation, requiring autonomy and flexibility to allow the professionals to produce the output (Mintzberg 1998). More substantive levels of policies and procedures govern the support staff, including: rigid work hours, detailed job descriptions and award conditions. The operating core also has a level of formalisation, but limited to areas such as promotion procedures, reports and audits that seek to verify standards and output of the professionals. However, the amount of documentation required of the professions is increasing as evidenced by the formalisation of many previously informal academic processes. Examples of this trend include the development of *quality logs* requiring academics to document student feedback, course team meetings and to explain and justify changes to courses and the introduction of a financial reporting system ‘*ABC*’ which seeks to cost all aspects of course design and delivery.

Robbins' (1990) structural analysis questionnaire reveals the organisation scores 23/35 for formalisation levels. This suggests moderate levels of formalisation for the university that is consistent with the professional organisation configuration. By separating the operating core responses from the support/technocratic staff responses, higher levels of formalisation are perceived by these latter groups, 29/35 for support and technocratic staff and 17/35 for the operating core. This result is consistent with the professional structure that contains rigid mechanistic frameworks in the support areas and more flexibility for the professional operating core (Mintzberg 1998).

5.1.9 Concerns with Formalisation

As identified above, *ABC*, a time in motion expense system, seeks to identify all costs associated with the design, delivery and evaluation of subjects. A performance management system, which requires increased levels of documentation for the

operating core, has also been introduced. This may suggest an increase in the technostructure of the university likely to result in increasing levels of formalisation. Mintzberg (1998) identified that a common problem in all organisations is the political pressures that each part seeks to impose so as to become the key part of the organisation. They identified that organisations that become overly politicised are characterised by internal conflict. Technocratic staff in professional structures, who are bound by rules and regulations, seek to impose levels of bureaucratic controls on the professional and more autonomous operating core. If this trend continues within RMIT the organisation would move closer to a machine organisation.

5.1.10 Centralisation

As identified earlier in this chapter, the academics represent the operating core and have a great deal of autonomy with respect to what and how they teach. Subject coordinators are free to modify subject content and delivery, although guidelines need to be followed in getting changes approved. This is again consistent with Mintzberg's description of professional organisations, suggesting that decentralisation for day-to-day operation is the norm; however, bureaucratic process exists in support functions. Robbins' (1990) structural analysis questionnaire reveals the organisation scores 23/35 on the evaluation of centralisation. This suggests moderate levels of centralisation for the university, consistent with the professional organisation configuration.

5.1.11 Training and Indoctrination

According to Mintzberg (1981, 1983) training and indoctrination are critical elements in professional organisations. RMIT has a significant training and development function operated from the HRMG. The majority of training can be classified as supportive in nature based largely in assisting the operating core in enhancing ancillary skills such as supervision techniques, use of technology in, rather than on the job training in their disciplines. The enhancement of specific discipline knowledge, such as marketing or engineering, is provided by the development function encouraging academics to maintain their professional expertise through conferences, publication and upgrading of formal qualifications. Management training is also provided for supervisory, managerial and executive staff typically addressing skills such as interviewing, appraisals, delegation and leadership and time management. In

this context we can identify such training as supportive, emphasising the professional standards and existing efficiency systems.

According to the HRMG manager, orientation programmes and on-going training and development are critical functions within the university. All new employees are offered an orientation program, identifying key policies, procedures and information concerning their specific work areas. Importantly, an introduction to the code of ethics is featured as part of this program. This is consistent with Mintzberg (1998) who identifies that training and indoctrination is high in professional organisations and that they are geared towards maintaining efficient systems and delivery of services.

5.2.0 Structural Configuration Conclusion and Ethical Systems Implications

Based on the description above, it would appear that RMIT best fits the description of a professional organisation, with mechanistic characteristics in the support and technocratic staff. The key part of the organisation is the operating core or the professionals possessing externally standardised. According to Mintzberg (1981, 1983) autonomy and flexibility are critical values for the professionals evidenced by a strong culture. As such the use of prescriptive rules and regulations that seek to control their behaviour are inconsistent with the externally developed standards.

Any ethical system needs to be based around these concepts of professional standards and flexibility for the operating core of the organisation, as rigid codes of conduct tend to be rejected by professionals. Of critical importance is the enculturation strategy, as for these principles to be accepted and adhered to the professionals need to value them as part of their professional work. Thus recognition of ethical behaviour through promotion or reward systems would need to be a key feature of any programme. As identified above, the professional organisation does have an inherent competing hierarchy of support and technocratic staff whose work is controlled in a more mechanistic fashion through the use of rules and regulations. Using Mintzberg's (1981) hypothesis of ensuring fit between internal characteristics of the organisation, these groups would have more prescriptive ethical standards, typically codes of conduct, which would be consistent with their normal work practices.

5.3 RMIT Process

In 1995 RMIT embarked on a process of developing a code of ethics. The chronology of events (refer to appendix 5) suggests that five distinct phases can be identified: a pre- development phase, consultation, development and approval by the university, implementation, and finally a post-implementation phase.

5.3.1 Pre- Development

According to the project manager the initial concept for a policy came from the then deputy vice-chancellor who believed that a formalised code of conduct was an important guide for staff. The then vice-chancellor, Prof David Beanland, embraced the concept and felt that it was important for RMIT to take a leadership role and be recognised as one of the first universities in Australia to develop such a code. He directed the HRMG to draft a proposal to develop a code of conduct for RMIT staff. The draft proposal included a review of other tertiary institutions that had or were considering developing their own codes. The vice-chancellor effectively delegated the task of developing the code of conduct concept to the university's HRMG. The director of personnel established a project team lead by Martin Peake, of HRMG, as the project manager. According to the project manager, neither had expertise in the field of ethics, therefore they conducted research into the field with the view of identifying experts and resources to assist the process. As a result both attended the Australian Association of Professional and Applied Conference (AAPAE), held at St John College, University of Queensland, Brisbane, in September 1995.

According to the project manager the university's HRMG collected substantial data from its day to day activities and results of various staff surveys and believed that RMIT had a culture that displayed characteristics including a high degree of loyalty to the university (although he was unclear as to why) and a preference for participation. RMIT branch president of the National Tertiary Education Union (NTEU) suggested that the loyalty of staff may be, in part, because the university tended to have trust-based relationship with staff unions. The project manager stated that based on this information and greater awareness of ethical concepts, gained from attending at the 1995 AAPAE conference, the group recommended that an aspirational rather than rules based compliance code would be more in keeping with RMIT culture. In addition

it recommended an inclusive bottom-up approach be adopted rather than an imposed top down approach, which the staff would tend to resist. The vice-chancellor accepted these proposals and a budget of approximately \$120,000 was established. The project was divided into three distinct stages: consultation, development and approval and implementation.

5.3.2 Consultation

HRMG's management improvement unit (MIU) established a committee that reflected RMIT's culture but also included internal experts and key stakeholders. The terms of reference of this committee were essentially to establish a system to involve staff in developing the code, produce a document for consideration by RMIT Council and design an implementation strategy.

According to the project manager, the first strategy was to raise ethical awareness within RMIT at managerial level and across all operating and support staffs, and knowledge of the developmental process to be undertaken. In addition the committee collected existing codes of and conduct from other institutions and organisations. These were analysed and reviewed to ascertain the different types of approaches available. A breakfast at Melbourne's Hyatt hotel for senior and executive staff was organised by the project manager that included the then university chancellor, Mr Sam Smorgon and experts identified by the project manager, including Professor Charles Sampford of the Key Centre For Ethics, Justice and Governance from Griffith University in Queensland. The aim of this breakfast was to introduce the RMIT project and the role of senior managers in its development and implementation. The second strategy was the establishment of a formal relationship with the St. James Ethics Centre, Sydney as the committee's consultants and trainers.

As the process was to be bottom up rather than top down, MIU organised a major internal RMIT conference: 'Exploring a code of ethics for RMIT'. An ethics poster was developed and distributed to all departments/groups publicising the conference. Over 200 staff attended. [Refer to the appendix 5 for a copy of this outline]. The ethics project manager invited identified ethics experts and key speakers including the then Chancellor Smorgon, Professor Sampford, noted bioethicist Professor Peter Singer from Monash University, Dr Noel Preston of the Centre for Applied Ethics at

Queensland University of Technology and Ms Moira Rayner. The project manager identified these experts as a result of previous research and attendance at the AAPAE Conference. The format of the conference required guest speakers to address the participants, followed by the formation of small focus groups that had the task of identifying ethical key issues. Working in small cross-institutional groups, participants generated a range of ethical principles and concerns that they believed RMIT needed to address. The aim of the conference was to elicit data from staff about the development of the code, what should be in it and how staff could be involved in its development and implementation. The data collected from the working conference became the foundation of the first draft code.

According to the ethics project manager, this document along with a booklet of the keynote presentations from the conference was distributed to all RMIT staff via the internal e-mail system and feedback invited. In 1997 Dr Simon Longstaff of the St James Ethics Centre facilitated a series of two-day workshops for staff. Participants were introduced to ethical concepts and decision-making, prior to being given a copy of a draft code of with university based case studies. Feedback from the first introduction workshops by the St James Ethics Centre indicated staff felt it was an important issue and they gained from the workshops. There was a sense that the code consisted of motherhood statements that needed further clarification and detail (RMIT 1999a).

5.3.3 Development and Approval

Over the next 18 months the ethics management committee, chaired by HRMG's ethics project manager, met on a bimonthly basis to consider and redraft the code based on ongoing feedback received from the broader RMIT community and external experts such as Dr Simon Longstaff. The committee met a total of twelve times over this period to consider comments and feedback from staff and stakeholders, including the vice-chancellor's office. In response to feedback from the two-day workshops, identified above, suggesting that the draft code consisted of motherhood statements, more detailed explanatory notes, which sought to clarify each of the eight principles of the code, were drafted. A second draft code, based on comments received was developed and disseminated to key stakeholders, following consultations with NTEU, quality development unit and internal audit. The final draft underwent critical review

by Dr Simon Longstaff. In November 1997 the committee reviewed the final aspirational code of ethics with explanatory notes and RMIT council approved this document in December 1997.

In April 1998 Dr Simon Longstaff and the Reverend Tim Costello gave presentations on ethics at the senior manager's breakfast as a means of publicising the approved code to senior management of the university and to demonstrate commitment of the university's executive leadership to the code. Over 190 senior managers attended these sessions. In May 1998 the code was printed and sent to 2658 staff in their pay slips with a letter from the vice-chancellor supporting the code (RMIT 1999a). [Refer to appendix 5 for a copy of the letter]

5.3.4 Implementation Phase

Following the distribution of the code, the ethics management committee was disbanded and a new ethics implementation committee was formed. The purpose of this committee, described by its terms of reference, was to oversee the implementation of the code including the development of support mechanisms such as on-line support, structural changes and training and development. One of the firsts tasks of this committee was to appoint a recognised group to design and facilitate training within RMIT. Despite ethicists being members of the committee, it was felt that RMIT's training function, part of the HRMG, did not have the specialist expertise needed to facilitate appropriate training. Using the research conducted by the previous committee, along with the knowledge of committee members, a variety of providers were interviewed and considered before awarding the contract to Melbourne-based Ethics in Business Pty Ltd (EiB). This decision was based on the company's expertise and experience in the field. A principal partner of the firm was Professor Ronald Frances who had published several texts in the field of business ethics. EiB were contracted to provide training workshops for RMIT staff, based around the code of ethics, designed to create awareness and skills in ethical decision-making. They were also contracted to provide a series of case studies and support material for use in on-line support.

5.3.5 Training and Development

During the implementation phase in mid 1998 through to early 1999, all staff that participated in the initial two-day workshops, conducted by St James Ethics Centre, completed a 'climate survey' prior to the session and a further evaluation of the workshop at its completion. EiB devised twenty-five workshops to involve over 300 staff from all faculties and groups across the university. Follow up workshops were also developed as a means of evaluating the impact of the training. Attendance at these workshops was voluntary and advertised through the HRMG web site and the HRMG's monthly newsletter 'Update'. Twenty 'phase one workshops' were developed and facilitated by EiB. The purpose of the workshops was to train and develop RMIT staff's skills in ethical decision making and the use of the RMIT code of as a diagnostic and decision making tool. These workshops were followed three months later by two phase-two workshops that invited phase one participants to provide feedback concerning their experience of the code. Phase two workshops were also evaluated.

In all, twenty-two workshops were actually undertaken across the university. Approximately 350 staff attended the phase one and two workshops between September 1998 and May 1999. The total number of staff attendances during the three consultation and training phases was approximately 1200, with 2658 staff receiving a copy of the code. It should be noted that the 1200 figure includes follow up sessions thus the actual number of separate individuals trained was likely much lower)

An examination of the feedback provided at the evaluation workshops identified the following:

- Respondents felt that the training process, being able to discuss the issues with colleagues and an experienced facilitator, demonstrated the university's commitment to ethics.
- Respondents felt more senior management should have been present at the workshops.
- A process for working through an ethical problem needs to be considered in relation to the broad reach of the code.
- The long-term maintenance of the code had to be considered.

- Respondents mentioned the need for ethical conduct between staff and felt the content of the code was common sense. They felt staff overall behaved ethically.
- Some respondents felt ethics was the soft side of management and harder to implement suggesting people would attend budget committees voluntarily, but would most likely fail to attend a meeting.
- Respondents found it difficult to mix personal ethics with organisational ethics.
- Those who used the code of ethics or the ethics website said they did assist in decision-making. The difficulty was getting staff to use the code as a point of reference (Source: EiB Evaluation forms)

No further specific on-going ethics training has occurred at RMIT since this time.

5.3.6 Support Mechanisms

On line support for the code was developed and implemented in late 1998 based on web pages that provided staff with access to the code, its explanatory notes, schedule of training and development programs, and a series of interactive case studies that guide the user through typical ethical dilemmas faced in different parts of the university. The case studies used trigger questions to prompt the user to consider the ethical perspective then introduced the code as a means of resolution. The cases and trigger questions were developed by EiB based around data obtained during the consultation phases, as well as their own experiences in the education sector. An examination of the web based support mechanism in 2001, revealed that it did not provide guidance on what an individual should do with unresolved ethical dilemma.

The ethics web site was established and accessed through RMIT's HRMG webpage, meaning staff members must first enter the HRMG site to access the ethics page. A link to the ethics web page from each faculty page and the main RMIT site was recommended by the implementation committee, but to date has not been enacted. As of the submission of this thesis in 2004, the original ethics web page is still currently on-line, however, no links appear on the RMIT home page and the link via the HRMG web page appeared to have been removed. The site has not been up-dated since its creation in 1998.

5.3.7 Structural Policy and Changes

According to the supporting statements published with the RMIT code of ethics, the principles were to be embedded into current policies and procedures. According to the director of HRMG, this has not occurred; however, she suggested that the code had been used as a guide for the establishment of staff employment agreements such as the 2000 enterprise bargaining agreement and the 2000 teaching and learning strategy. An examination by the author of both RMIT documents revealed no direct reference to the codes of or to any statements highlighting ethical behaviour. The concept of ethics is referred to in the RMIT strategic plan committing the university to the code, however, there are no supporting statements in the strategic plan as to the extent or method of commitment.

5.3.8 Ethical Dispute Procedures.

Other than the trigger questions and cases described above, no specific mechanisms or series of policies were introduced to guide staff through the decision-making process, or direct staff as to how to settle an unresolved ethical problem. According to the director of HRMG existing dispute resolution procedures such as grievance and discipline policies were considered sufficient at the time of the implementation of the code, however, she acknowledged that these do not necessarily assist in the resolution of an ethical dilemma.

5.3.19 Structural Changes

No formal mechanisms such as ethics officers or ombudspersons were incorporated into the RMIT ethics, as of the data collection phase for this thesis. It should be noted that the implementation committee, in its final report to RMIT council, recommended that such an office be created as a means of ensuring on-going review and dispute resolution.

5.3.10 Evaluation Process

The code of ethics has not undergone any formal review since its development. The implementation process, as represented by the training workshops, was given a limited

review by the consultant group EiB, focusing specifically on the participants who attended the training workshops between 1998 and 1999. These findings will be examined later in this chapter. With the completion of the training workshops, the code of ethics implementation committee having met its terms of reference produced a final report on the process making a series of recommendations concerning the ongoing system maintenance. It highlighted the need for the code to be integrated into existing policies, the need for an office to oversee the code, an annual review and to act as a dispute resolution mechanism. The ethics implementation committee submitted this report to the deputy vice-chancellor Resources for action and referral to the vice-chancellor.

According to the director of HRMG there was no action in response to the report or its recommendations at the time, due to the then imminent retirement of the vice-chancellor, Professor David Beanland. The director of HRMG outlined a view that as the new vice-chancellor may have interpreted the committee's recommendations differently, it was deemed advisable to wait until she assumed office in late 2000 before forwarding the committee's report to the vice-chancellor's office for action.

5.4 Analysis of the RMIT Ethics Framework.

The RMIT ethics framework can be described as encompassing the published code of and explanatory notes, the awareness raising strategy completed between 1995-1997, the training and development completed in 1999, the support and communication mechanisms on the Internet page, and the letter of support from the vice-chancellor to all staff.

5.4.1 The RMIT Code of Ethics and Explanatory Notes

As suggested above, and consistent with the definition of a code of ethics as defined by Robbins (1998), the RMIT code of ethics is essentially an aspirational code. The eight published ethical statements and the explanatory notes provide statements of what the members of the organisation value and the desirable characteristics of staff. These are as follows:

- 'We are committed to student-centred, quality learning opportunities.'

- ‘We work towards building a harmonious working environment in which we maximise our professional performance.’
- ‘We recognise and value the contributions made by people to the university.’
- ‘We demonstrate openness and fairness in all our dealings with people.’
- ‘We respect the essential dignity of all people.’
- ‘We recognise our responsibility to build civilised communities.’
- ‘We care for the social and natural environment.’
- ‘We value and support the right to confidentiality.’

Principles 3, 4 and 5 clearly refer to the characteristics or values that members of the university are expected to demonstrate. The use of values and character-based statements is consistent with virtue-based approaches. According to Solomon (1993) and Trevino and Nelson (1999), virtue based approaches focus on the integrity of the moral actor rather than the act itself. Typically such approaches emphasise principles such as honesty, integrity and fairness as the basis for guiding action. In virtue, community or the dominant group defines character. Child (1986) cites similar characteristics as indicators of the organisational culture. This suggests that the RMIT code is a document that seeks to influence behaviour through organisational cultural mechanisms rather than generate compliance through the imposition of formal codes of conduct.

The eight statements of the code can be seen as identifying a particular desirable characteristic of its workforce. Statement 1 can be seen as referring to professional standards, ‘committed to student-centred, quality learning opportunities.’ Statements 2, 3, 4 and 8 all refer to values and general behaviours within the university, whilst 6 and 7 relate to how the university relates to the external groups and the general environment (RMITb 1999). As the RMIT code of ethics does not contain prescriptive statements it could not be argued or interpreted as a formalised or compliance based code. These statements are consistent with aspirational or integrity codes, as defined by Paine (1994), providing guidance or statements of values but without specific details as to what behaviour is or is not permissible.

An ethics framework consists of more than just a code of ethics. As Longstaff (1994) suggests, simply producing a code of ethics does not necessary commit the organisation to ethical behaviour. An ethical framework must be based on a statement

or outline of the ethical principles, but also strategies to communicate these to the organisation, methods of enculturation which include training and development, socialisation, structural mechanisms such as dispute procedures, officers and an on-going evaluation process.

5.4.2 Structural Analysis

RMIT is predominantly a professional organisation with mechanistic features in non-operating core areas. The appropriate ethics strategy for such configurations is an approach established around aspirational system with more formalised components as means of developing appropriate behaviours.

Clearly the RMIT code of ethics is an aspirational system designed to provide guidance in ethical decision-making by the use of a series of principles. In this context we can conclude that it is generally an appropriate strategy for a professional organisation. In a professional organisation the operating core dominates the structure exercising a great deal of autonomy. Formalisation is moderate to low with generally decentralised decision making system for day-to-day operations. This is consistent with RMIT. The operating core has been identified as the academics and educators who deliver the primary production of the university. These groups are not bound by excessive rules and regulations such as detailed job descriptions or attendance requirements. The use of an aspirational approach is consistent with low levels of formalisation and allows the professionals to exercise discretion when making ethical decisions, consistent with their own standards and guidelines. This is also consistent with professional bureaucratic structures. However, as identified, support and technocratic areas of the university operate on more routine and bureaucratic principles through high levels of formalisation. Using Mintzberg's (1981, 1983) hypothesis of fit, more prescriptive policies--typically codes of conduct--should also exist for these areas. No such documents were created as part of RMIT's ethical system.

Professional organisations achieve coordination of activities through standardisation of skills of the operating core and a secondary reliance on the use of cultural mechanisms or the standardisation of norms (Mintzberg 1998). The operating core--the teaching and lecturing staff--value autonomy and individual freedom, with a correspondingly

lower level of formalisation than in a more mechanistic structure. This is also supported by the calculation of the level of formalisation earlier in the chapter, which clearly identifies a low level of formalisation. This suggests that an aspirational ethical system is more appropriate for a professional organisation than a rules or compliance based code of conduct. This is supported by Trevino and Nelson (1999) and Solomon (1993) who suggest that virtue based approaches to ethics are consistent with professional groups who have already well-developed standards. For example, accountants, engineers and marketers all have developed professional or industry codes of conduct or codes of ethics eliminating or reducing the needs for an organisational code of conduct for professionals. This is consistent with Mintzberg (1981, 1983, 1998) who suggested that behaviour of individuals in the operating core of a professional organisation is regulated by external professional standards and supported by the concept of role or professional. The general strategy of an aspirational or integrity approach to ethics is appropriate for RMIT's operating core, as it is a professional organisation. However, it is also an incomplete system as it does not provide clear guidance for the more bureaucratic parts of the organisation. In addition, as the subsequent analysis reveals, the implementation phase of the RMIT ethics strategy has not been effective.

5.4.3 Formalisation and Cultural Control

Child (1986) identifies that cultural mechanisms, as a means of controlling or directing behaviour, can be highly successful as a substitute for written rules and regulations, however, this does not mean that cultural mechanisms are purely non-formal. He identifies that in order to build a strong culture, the organisation must address critical policies in the areas of staff selection, socialisation and on-going communication and reinforcement of the desired behaviour through organisational processes that are accepted by members. This suggests an effective strategy would be to embed the ethical code into already accepted processes within the university, such as staff promotion policies, training and development work plans.

It is in this reinforcement that the RMIT process has been ineffective. As identified by the HRMG director, the RMIT code of ethics has to date not been incorporated into major policies of the university. It does not feature in staff management policies, such as promotion and performance management. This means that there is no requirement

for the operating core, the key part of a professional organisation, to demonstrate a commitment to the university's ethical principles as part of their performance. Reinforcement and compliance are critical in establishing and modifying behaviour. This has effectively meant that the professionals, the educators, have not been given any reason to incorporate the university's ethical principles into their own professional standards. As Mintzberg (1998) identified, the work of the operating core of the professional organisation is based on external professional standards. Unless they see the value of RMIT's ethics code, as contributing to their own professional standing, such as through promotion or recognition, it is unlikely that they will be committed to the organisation's ethical principles.

5.4.4 Analysis of the RMIT Strategy

Irrespective of whether an aspirational or a more formalised compliance approach is used, strong and demonstrable ethical leadership is critical to ensure an effective ethical programme

5.4.5 Effective Leadership

Several ethical leaders can be identified in the RMIT process: the vice-chancellor David Beanland, the deputy vice-chancellor, the ethics implementation committee and the ethics project leader from HRMG. In the case of the vice-chancellors, both had legitimate power to ensure that the process actually occurred. The committee had its power base in expertise, with several members being recognized ethicists, and the final leader the project manager, as the driver or internal change agent, ensured that things actually got done.

5.4.5.1 Executive Support

Senior executives have critical roles in the ethical process. Firstly, executives have the legitimate authority and decision-making power to ensure that adequate resources are provided for the process. Secondly, they delegate the responsibility for the process because, according to Mintzberg (1981, 1983) the strategic apex is concerned with strategic and not operational matters, and thirdly, they need to role model behaviours and demonstrate commitment to the rest of the organisation. This latter point is

emphasised in organisational behaviour literature such as Bartol et al. (1998); McKenna (1999) and Robbins (1990) who stress that leaders play a crucial role in establishing organisational culture by demonstrating acceptable behaviour which parallels the ethical role modelling behaviour..

In the RMIT case, the then vice-chancellor Prof David Beanland played a crucial role in the establishment of the ethical code. According to the director HRMG and the ethics project manager, the vice-chancellor was instrumental in committing the university to the development of an appropriate code of ethics in 1997. Both indicated that they were uncertain as to what exactly motivated vice-chancellor to this path. They suggested the desire to have RMIT seen as one of the first universities in Australia to adopt an ethics code, may have been influential. Dunphy and Stace (1991) identified that organisational leaders often want to be seen have having championed or achieved significant change as part of their tenure. This is also consistent with motivation theories in organisational behaviour which identify egoistic drives such as affiliation and self-actualisation as a major factors in determining behaviour of senior executives (McKenna 1999) This was confirmed by the then vice-chancellor who expressed the view that it was important for the university to have a such a code and to be seen as one of the leaders in the tertiary education sector.

5.4.5.2 Delegation

Vice-chancellor Beanland directed the code be developed in 1997, approved the 1998 report that advocated an aspirational code and \$120,000 budget allocation, and so demonstrated a level of executive support. The director of HRMG and the project manager agreed that without this commitment from vice-chancellor, the process at RMIT would not have proceeded. The project manager, as chairperson of the various RMIT ethics committees, also acted as an effective internal change agent. The project manager acknowledges that he was personally committed to the process and believed it needed someone in HRMG who would maintain its prominence. The ethics project manager left the organisation in April 2000, a time that corresponds with the implementation committee's final report. As previously identified in this chapter, there has been no further training, publicity or movement on any of the recommendations of the committee since that time.

5.4.6 Changes to Structure

Ethical frameworks, irrespective of whether being aspirational or prescriptive, require degrees of changes to the organisation's structural components so as to provide the mechanisms by which the framework can be used by organisational members. No such structural changes were implemented as part of the system, despite this being a recommendation of the implementation committee. The director of HRMG advised that whilst an ombudsperson was seen as a possibility in the future, she felt that it was a proposal that would not be supported by the then vice-chancellor. She also argued that existing RMIT policies, such as grievance and disciplinary policies, and normal reporting lines, were sufficient to address ethical dilemmas which might arise. This view was echoed by the vice-chancellor who stated that he believed that RMIT staff only required the code as a means of guiding ethical behaviour. Studies by the Center for business found few organisations made changes to their organisational structure to facilitate strategies (Hoffman 1995). Farrell (1997) and Farrell and Cobbin (1998) also found that Australian organisations failed to support codes through the appointment of ethics officers or ethics function. A crucial success factor in the successful implementation of a system is a senior executive to continuously champion the cause. The departure of the ethics project manager and the subsequent lack of activity seem to support this contention.

5.4.7 Code Development and Change Management

According to the ethics project manager the purpose of the initial consultation phase of the ethics process was to sensitise RMIT staff to as an issue and involve them in development of a system so as to build commitment. The use of the breakfast briefings for senior managers, initial mini-conference to document concerns and ideas for the code, plus the use of recognised ethics experts such as Simon Longstaff and Peter Singer were instrumental in raising awareness and clearly demonstrating to the staff of RMIT that the process would be consultative. Carnall (1999); Dunphy and Stace (1991); Egan (1990) and Harvey & Brown (2001) argued that raising awareness of the need for change is a crucial first step in any organisational change strategy. As identified by Nelson (1995), a critical factor in the success of ethical frameworks is the principle of participation; the involvement of those who are to be governed by the code in its initial development. RMIT's approach can be seen as consistent with this

strategy. The initial mini conference, with in excess of 200 staff attending, and the publication of the results clearly was a strategy designed to involve participants in the formation of the code, as well as raising awareness. The ethics project manager suggested that the ability of all university staff to e-mail comment on the code over the ensuing 12-18 months and regular HRMG bulletins of the draft, ensured the consultation process would be seen as on-going. The ethics project manager indicated that whilst no record of the number of staff suggestions (via-e-mail) was kept, many such suggestions were made reviewed and brought to the RMIT ethics implementation committee's attention.

The branch president of the NTEU identified that there was no official union representation on any of the ethics committees, but acknowledged that the code was developed consultatively and the union was given the opportunity to provide feedback. He stated that the NTEU was aware of the strategies and the wide participation being sought. The focus group discussion, conducted in July 2000, also revealed that staff felt they had the opportunity to contribute to the design and were aware of e-mails and bulletins produced by RMIT regarding the process of the code. the process of designing the RMIT code was a democratic one with all staff having the opportunity to contribute to the development. This strategy was consistent with principles necessary for building commitment from organisational members.

5.4.8 Structural Mechanisms

Ethical frameworks, whether aspirational or prescriptive, were identified as requiring degrees of changes to the organisation's structural components so as to provide the mechanisms so as to facilitate its use. As previously identified in this chapter, structural mechanisms and formalisation changes such as an ethics committee, officers or resolution procedures, were not put into place by the university. The implementation committee's terms of reference applied to the creation, implementation and evaluation of the process and it did not include acting as dispute resolution function. The implication for any individual who wishes to resolve an ethical dispute is that there is no independent office such as an ombudsman, not committee or designated dispute procedure to deal with the matter. This issue was highlighted by participant feedback in the training conducted by EiB Pty Ltd, who identified the following:

- A process for working through an ethical problem needs to be considered in relation to the broad reach of the code.
- Some staff felt that they couldn't trust the organisation to support them if they raised an ethical dilemma.

As the discussion with the RMIT focus group reveals, individuals expressed reluctance to raise ethical issues because there was no guarantee of an independent resolution process.

Driscoll and Hoffman (1999), Ferrell & Fraedrich (1997), Hoffman (1998), Preston (1996), Ritchie (1996) and Trevino & Nelson (1999) recognise that without such formal mechanisms ethics strategies are likely to be undermined and staff begin to question the organisational commitment to the process. Farrell (1997) also found such lack of support structures is a general characteristic of the Australian experience. There appeared to be reluctance on the part of the university to commit to formal structures. This seriously jeopardised the effectiveness of the process.

As previously identified, the ethics implementation committee did recommend the establishment of such mechanisms in their final report and that these were not pursued because of a perception that the vice-chancellor would not support such a public reporting process. The director of HRMG suggested that the deputy vice-chancellor Resources might have delayed forwarding the ethics implementation committee's final report, believing that the incoming vice-chancellor, Professor Ruth Dunkin may have been more supportive of such moves. In an interview with the then vice-chancellor in late 2000, he indicated that was unaware of this report or its recommendations. He also expressed a view that, having delegated the task of establishing the ethics system to HRMG, he expected that the code of be incorporated into all RMIT policies and procedures.

This delay in forwarding the recommendations to the then vice-chancellor appears to be consistent with Child (1984, 1986); Hodge, Anthony and Gales (2003) and Robbins (1990) who suggest that dominant coalitions, or groups who exercise power within an organisation, are able to affect the structure of an organisation or its policies so that it deviates from appropriate structural outcomes. Child (1986) and Hodge, Anthony and Gales (2003) referred to this process as 'satisficing', an approach to decision making

that results in sub-optimal outcomes. Mintzberg (1981, 1983) also identified one of the problems in organisations is the trend to balkanise, which he outlines as a political process driven in part by functional grouping strategy. The decision by the deputy pro vice-chancellor resources, with the knowledge of key HRMG personnel, to delay the report could be argued as political activity designed to affect the decision to support the reporting system and incorporation of the code into all RMIT policies. The outcome of the delay was the suspension of the RMIT process, thus halting recommended structural changes.

5.4.9 Communication Strategies

An effective communication involves several key aspects including enculturation strategies such as socialisation, on going training and development and keeping the message of prominent with staff through notices and publications.

5.4.10 Training & Development

The RMIT Implementation process was largely consistent with the framework discussed in the literature review. Training and development was a major feature from the initial use of focus groups and workshops as a means of collecting data, through to the inclusion of in the senior management development programs to the code training workshops facilitated by EiB. Whilst the workshop evaluations seemed to support the advantages of training, such as increasing awareness of and the benefits of using the code in decision making, several participants' criticisms point to underlying implementation problems. The absence of senior managers, such as the vice-chancellor, deputy vice-chancellors, deans and heads of schools in the training programs created an impression amongst participants that the code was largely meant for non-managerial staff. This was a key point made by participants via the evaluation forms and reinforced by members of the focus group.

Whilst over 360 employees did attend the workshops designed to implement the code, this represents less than ten per cent of the total number of employees of the university. The voluntary nature of the training and the low attendance figure, as a representation of the entire workforce, undermined the effectiveness of the training as an organisational wide developmental programme. This is supported by Connock and

Johns (1995, p.116) who identify that effective training and development programmes must have 'universal significance and ... emphasised through comprehensive exposure to training and indoctrination' and that this should be mandatory. Rothwell & Kazanas (1990) identify training as a strategic change tool and that key staff being trained then act as internal change agents within their work areas. However, this strategy, to be effective, needed to target specific individuals throughout the university with the authority and ability to introduce change. As identified by Trevino and Nelson (1994, 1999) training needs to be viewed as a holistic strategy with all levels of the organisation being trained. As the RMIT process was voluntary, training of key internal change agents became a matter of chance rather than strategy. Feedback from participants concerning the absence of senior managers in the training program can also be seen as an indicator of emerging cynicism. A factor that potentially undermines the effective implementation of ethical systems.

5.4.11 Orientation

As Child (1986) identified, cultural mechanisms as a means of moderating behaviour, need to be embedded in accepted policies and procedures. A positive aspect of RMIT's strategy is the incorporation of ethics into the orientation programme for all new employees. According to the director of HRMG this takes the form of an information session with new employees being given a copy of the code, information concerning the web-site and the support material contained therein. The inclusion of the ethics code in orientation program is an important step in the socialisation process. Ferrell, Fraedrich and Ferrell (2002), Lagan (2000) and McEwan (1999) emphasise the importance of socialising new employees to the values and beliefs of the organisation as part of an effective implementation process. However, the exposure to the code, whilst valuable, is undermined by the lack of any training in how to use it or what to do in the event of an ethical dilemma that has reached an impasse. As Burns (1996) and Hall (1985) identify, no new employee is job or organisation ready. Individuals must be socialised into the culture and given appropriate on the job training to reduce the transition time between ineffective new starts and productive employees. French and Granose (1996) argue most individuals are not exposed to ethical theory and concepts, thus moral reasoning skills also need to be developed through appropriate training. In addition they identify discourse as a necessary process to establish consensus as to what the organisation's code or ethical statements actually mean.

Connock and Johns (1995) identified three critical failures in training and development. Firstly, that training starts and finishes with low-level staff, secondly, that is seen as a one-off event and finally, that training is run on a shoestring emphasising large audiences and behavioural rather than interactive teaching techniques. The first two of these failures is evident during the implementation process. Attendance at the workshops conducted by EiB was voluntary. The report presented to the RMIT implementation committee by EiB identified that participants were largely administrative and few line level managers attended the programmes. This suggests that the critical group of the professional organisation, identified by Mintzberg (1998) as the operating core and the decision makers of the organisation, were not present in large numbers. Thus the majority of staff who were trained in and the use of the code were administrative staff predominantly from support and technocratic areas. As previously identified in this chapter, these groups require more detailed codes of conduct rather than codes of ethics. This may suggest that they were an inappropriate training audience. Secondly, as identified by the director of the HRMG, training and development in ethics occurred only in the time immediately after the introduction of the ethics code. This would appear to be consistent with Connock and Johns (1995) second critical training failures whilst the third does not seem to be present given the budget allocation and EiB facilitation using adult learning, case studies and small training class size.

Burns (1996); Laird (1989) and Rothwell & Kazanas (1990) argue that the purpose of orientation, training and development is to modify behaviour. This is also consistent with Mintzberg (1981, 1983, 1998) who identifies indoctrination as a key learning strategy in bureaucratic structures. Success needs to be determined by not only evaluating the actual programmes but also by visiting the individuals who were trained to establish whether behaviour has altered. As the RMIT code of ethics was consistent with the integrity approach, as described by Paine (1994), its prime target was the professional operating core. Unfortunately this largest group of employees was not the main group who attended the training. This suggests that the training program developed to support the code was largely ineffective due to the wrong training audience being trained.

5.4.12 Other Forms of Communication

Other forms of ongoing communication include information in published documents, notice boards and newsletters. RMIT did provide all staff with a copy of the code and produced hundreds of posters to be prominently placed throughout the university with details of the code and the website address. An inspection by the author in 2000 of several RMIT buildings, failed to identify any ethics posters on notice boards or other displays. While four of the focus group members indicated they had access to the code, only two acknowledged they still had a copy of the code in their offices. No member of the focus group could identify any recent publicity for the code or any ethical policies or statements by the university. The director of the HRMG acknowledged that lack of public use of the ethical code in negotiations with trade unions in the review of existing policies and procedures, probably had a negative impact on staff awareness of the code. The inability of organisations to continuously communicate ethical standards and or to keep the ethics message in the minds of employees diminishes the impact of the system. Ferrell, Fraedrich & Ferrell (2002) suggest that failure to maintain effective communication can lead to ethical cynicism by suggesting that the initiative was a *one off* or a *management fad* and not as important as other organisational goals and objectives.

5.5.0 Effectiveness of the RMIT University Strategy

As part of the implementation process, HRMG conducted an ethical climate and performance survey, to measure awareness and effectiveness of the RMIT ethics system by targeting various questions about the published code, the training and general perceptions of behaviour. In all there were 276 respondents. Their average length of employment was just over ten years, with two thirds having served between two and seventeen years at the university. Respondents represented the full range of academic, TAFE and general staff. The number of staff supervised by respondents averaged thirteen, but one third of all respondents did not supervise any staff. The results of this survey were as follows:

- Respondents saw ethics in terms of personal conduct and relations, especially honesty rather than broader organisational ethics.
- Respondents did not have any expectations of the ethics workshops.

- Respondents felt ethics did matter but had no clear opinion on the issue.
- Respondents felt they were free to discuss ethical dilemmas at work and did so with peer and colleagues, their supervisors and a trusted colleague.
- Some respondents suggested that senior staff were not fully involved in supporting the code and its practice

On a scale of 0-4 [0-never, 1-hardly ever, 2-sometimes, 3-frequently, 4-almost always], respondents felt ethical dilemmas were sometimes personally faced at work (mean 2.13). Most reported that they did not use the RMIT code of ethics in decision making even though it had been provided to all staff members. Respondents also said superiors or colleagues were perceived as hardly ever reaching key ethical values and principles (mean 1.32). This was supported by the RMIT staff survey. Types of problems encountered by respondents were: financial, job security, management, academic standards, treatment of students, favouritism, teaching standards, lack of disclosure of relevant information and undignified treatment (RMIT 1999a).

This data indicates that training and development has not been successful in several areas. Individuals did not grasp the difference between individual and organisational. This thesis highlighted the moral dimension of organisations; however, it also identified a significant difference between individual and organisational morality. Staff responses support the contention that the RMIT training was unsuccessful in encouraging staff to use the code as a means of decision-making. One would question the effectiveness and purpose of an organisational policy that no one actually uses. The respondents, who felt ethics mattered, but had no clear opinion on the issue, suggest a general level of apathy or cynicism regarding the real importance of ethics within the organisation. The focus group interviews demonstrates that these trends continued in the two to three year period following the introduction of the code. Of the eight staff that participated in the focus group, only one attended the training. Whilst all eight staff recognised that a code existed, only the one who attended the training was able to identify characteristics of the code, such as it having eight main principles. All focus group participants acknowledged that they do not use the code in their decision-making. Only four participants indicated that they had a copy of the code and only two indicated that the code was within reach in their offices.

The focus group findings, some twelve months after the training concluded, support earlier contentions that the training and development strategy has been ineffective. The director of HRMG estimates that approximately thirty per cent of the staff is aware of the existence of the code; while RMIT branch president of the NTEU believed this figure is closer to fifteen to twenty per cent of total staff numbers. Both conceded that few use the code as a decision making tool. The author concludes that as a major strategy of enculturating at RMIT the orientation, training and development strategies have been ineffective.

5.6 Conclusions of the RMIT Case.

The RMIT University made a conscious decision to introduce an ethics system to cover all its employees. This organisation was classified as a professional organisation with the key part of the University being the academics and teachers who, as a consequence of the work undertaken, required much higher discretion levels than in more mechanistic structures. Therefore, the organisation was shown to have only moderate level of rules and regulations as they applied to this large group of operating core. However, consistent with Mintzberg's professional organisation, other parts of the University, in particular the support and technocratic areas as represented by groups such as human resources, student administration, maintenance and library services, were identified as being more mechanistic in nature and subject to higher levels of formalisation with less discretion.

The approach taken by the HRMG of: engaging recognised experts, such as Noel Preston, Charles Sampford, Peter Singer, and Simon Longstaff, attempting to research current trends in organisational practice and the use of internal RMIT ethics experts, was a positive initial strategy that provided a strong basis for the development of the code. As identified by Nelson (1995), a primary reason for the failure of codes is the absence of valid ethical principles that underpin the system such as deontology, justice, fairness or rights. The use of recognised ethics experts at the consultation, design and implementation had the advantage of ensuring that the RMIT code had a strong philosophical basis. The initial strategy of building awareness and ensuring participation was also a major strength. Establishing the conditions for major organisational change is a feature of organisational development and organisation behaviour literature and consistent with the strategies outlined in Chapter 2. This

provided a basis for successful adoption of the code. Climate surveys and questionnaires conducted by HRMG in these early stages support this contention. The author has acknowledged the executive leadership of the university played a critical role in establishing the ethical code. They also delegated the process to HRMG who were able to secure substantial funding for the project.

Aspirational based code of ethics is consistent with the key part of the professional organisation structure of RMIT, the operating core who, as professionals, moderate their behaviour based on principles and standards requiring flexibility in decision making. However, professional organisations also have significant groups that resemble machine organisations. This chapter identified these as increasing in importance, evidenced by the increasing standardisation of work processes at RMIT. The existence of an aspirational code only is inconsistent with the structural characteristics of these groups in the organisation. As identified in Chapter 3, such organisational structures require the use of a dual ethical code system with aspirational codes for the operating core and more prescriptive codes of conduct or compliance based systems for the other more mechanistic parts of the organisation. The failure of the university to incorporate many mechanisms that allow staff to resolve ethical dilemmas has undermined the process. Internal surveys have revealed that staff were reluctant to pursue ethical issues due to the lack of an independent process.

The training target audience was ineffective at two levels. Firstly, as internal change agents, the training audience needed to be individuals with legitimate power bases within their own organisational areas, so that they could influence their colleagues consistent with the findings of Ferrell, Fraedrich and Ferrell (2000); French and Granose (1996); Kohlberg (1998) and Schein (1997) that supervisors and key personnel have a major impact on behaviour of subordinates and colleagues. The voluntary nature of the training meant this processes would be, at best, ad hoc. Secondly, the training has been shown as ineffective in modifying the individual behaviour as post-training workshops clearly demonstrated the code was not used as a tool in decision-making.

Following the implementation phase and the training referred to above there was little attempt by the organisation to continuously push the concept. As identified by the director of HRMG, this was not a conscious decision, however, it has had the effect of

negating the confidence in the code and its ability to be a decision making tool. RMIT failed to incorporate its stated ethical principles in a form that is recognisable by the organisational members. This has rendered the code an ineffective policy, as there are no positive or negative reinforcement strategies evident that encourage behaviour changes. The RMIT case demonstrates how an organisation can proceed in a strategic fashion; however, failure to implement all required aspects of a change process can render the process impotent. RMIT's current level of ethics has little to do with the published code and the efforts to develop an ethical culture have been undermined by an ineffective and incomplete implementation strategy.

The University's Vice Chancellor was critical to the ethics strategy as it was he who initiated the process and ensured that necessary resources were provided. This was shown to be consistent with the need for organisational leaders to champion the ethics cause and to ensure appropriate developmental resources be made available. The RMIT University pursued a participatory approach to developing an ethical system, initially through a major conference open to all employees that was facilitated by external consultants. From this conference ethical concerns of employees were identified and used the basis for an ethics developmental process that included the formation of an expert committee, the drafting of a written policy, referred to as the code of ethics and support for the code through training, again facilitated by external consultants. This process was seen to be consistent with much of the literature concerning the use of external experts to facilitate the initial stages, both from an organisational development and business ethics literature perspective. The use of the conference and subsequent feedback mechanisms was also consistent with organisational behaviour and change literature identifying participation as a means of building employee commitment. The formation of a committee that included internal University ethics experts and a project leader that had conducted research into ethical systems was recognised as a positive approach consistent with strategies concerning appropriate delegation.

The final written ethics policy of the University was identified as a code of ethics, using a series of statements and principles consistent with the integrity or aspirational approach and in fit with the professional organisation's key part, the professional academics and educators. It was concluded that the code of ethics at RMIT University was an appropriate document for this group.

The RMIT University ethics process also was shown to utilise an initially effective communication strategy that included distribution of the code to all employees, along with a covering letter from the Vice Chancellor. The printed code also included statements foreshadowing the incorporation of the ethical principles in all RMIT University policies and procedures and a commitment to an ethics policy review. The strategy included the establishment of intranet web site detailing the code, decision making trees and case studies of typical university dilemmas. These strategies were argued as be consistent with effective communication and support mechanisms.

Training also occurred in support of the code, however, it was limited to the period immediately following the introduction of the code and the training audience was predominantly from the administrative and support areas and was shown not to include a visible number of senior managers and academics. This resulted in an ineffective outcome and contrary to the literature that advocated a broad approach to training targeting individuals and groups who could then act as change agents throughout the organisation.

At this point in the process, with the overseeing ethics committee having completed its terms of reference, the RMIT University's approach to creating an ethical culture effectively ceased. A Committee report, intended for the Vice Chancellor, advocated the establishment of an ethics office with the responsibility for updating the code, resolving ethical disputes, the development of internal reporting systems and the need for specific codes of conduct for the more mechanistic areas of the organisation. This report appeared to have been withheld from the Vice Chancellor.

The RMIT University approach to creating an ethical culture was initially in fit with its professional organisation structure, however, it was also concluded to be an incomplete approach. No reinforcement strategies, such as the building in of ethical performance as part of reward systems, or ethical commitment and performance as part of the promotion system were undertaken. The University's strategy of allowing voluntary participation in the training programmes failed to target those individuals for whom the code of ethics was actually designed.

The University's commitment to the ethics process was shown to have declined significantly through no further communication concerning ethics to its employees, the failure to update the ethics intranet site since 2000 and no active link to this page appearing on any other RMIT web page, effectively stopping any employee from finding it. To the author's knowledge no official evaluation or ethics audit has been conducted since the introduction of the ethics code.

The RMIT University's ethics strategy was deemed as initially sound, based on participative approaches using internal and external experts as a means of guiding the process, culminating in an appropriate code of ethics, consistent with the integrity or aspirational approach. Whilst consistent with the professional nature of the organisation, it was an incomplete policy failing to provide guidance for the more structured and formalised areas of the University. The lack of support mechanisms, changes to the organisational structure, alignment of policies, procedures and the review of the system were shown to have undermined the strategy raising ethical cynicism and rendering the ethic strategy ineffective.

Dominant coalitions within the University effectively influenced the decision-making process most notably in the ability to withhold the recommendations to the Vice Chancellor. This is consistent with Mintzberg's characterisation of organisations that become excessively politicised and, therefore, take inappropriate decisions with respect to policies, procedures and broader issues of structure and design. It was demonstrated as a feature of organisations that are in transition from one organisational structure to another. This was found to be consistent with the organisational life cycle discussion that identified such issues as examples of organisational crisis.

Chapter 6

The BHP Case

6.0 Introduction

Once Australia's largest company, BHP Limited (BHP) can best be described as a natural resources company engaged in discovery, development, production and marketing of iron ore, coal, copper, oil and gas, diamonds, silver, lead, zinc and a range of other natural resources

BHP's history began with a silver lead and zinc mine in Broken Hill, New South Wales, in the mid-1880s. It is from this beginning that the organisation takes its name. In 1899, the organisation leased an iron ore mine at Iron Knob in South Australia, sixteen years later in 1915 it diversified into steel making, commissioning its first steelworks at Newcastle, New South Wales. Following the end of World War 1 it continued to diversify, forming a shipping fleet as well as acquiring coalmines and additional reserves of iron ore and limestone throughout Australia. It also acquired companies that manufacture steel products (BHP Billiton 2002). According to Daft (2001), Hodge, Anthony & Gales, (2003) and Robbins (1990) this is consistent with an evolutionary strategy of vertical and horizontal diversification.

The organisation expanded its steel production capabilities in the mid-1930s when it acquired the Australian Iron and Steel Company along with its Port Kembla steelworks. A few years later, BHP established blast furnace and shipbuilding facilities at Whyalla, South Australia. The organisation continued to diversify entering the petroleum industry through a major oil discovery in Bass Strait. Throughout the 1970s and 1980s its focus shifted offshore acquiring Utah International Incorporated, comprising coalmines in New Mexico and Queensland, as well as discovering a major deposit of copper in Chile. It also continued its diversification into energy with projects such as the northwest shelf gas and liquid natural gas development in Western Australia. During the 1990s, BHP acquired companies, opened new mines and commenced new petroleum, production and group steel operations. The organisation was truly global operating in both the Northern and Southern American continents, South East Asia and Africa in addition to Australia (BHP Billiton 2002).

In the mid-1990s the organisation introduced the global business conduct guide to provide a common behavioural framework for all its employees regardless of where they were located in the world or what specific job they undertook. An objective was

to establish exemplary business conduct worldwide by promoting awareness of BHP's conduct standards amongst communities, customers, lenders, shareholders, suppliers and other stakeholders (BHP 1999d). BHP developed the 'Guide to business conduct', a booklet detailing standards of behaviour, which included sample cases and further information by way of clarifying questions and answers. In addition it established a worldwide hotline or helpline that employees could access to discuss or report issues of concern. Finally it established a global forum, a high level executive committee with independent membership assigned the responsibility for overseeing the conduct system. It is this approach demonstrates BHP's attempt to introduce an ethical framework to the organisation.

This chapter will examine the 'Guide to business conduct', consider the circumstances that brought about the system, the strategies and resources provided to design and implement the system throughout the organisation. It will determine its level of effectiveness and appropriateness based on the structural characteristics of the organisation and that of the ethical system as outlined in the literature review chapters. Conclusions will be drawn as to the level of fit between the organisation and its ethical system and recommendations will be made with a view to improving the ethical framework.

6.1 Structural Characteristics of BHP

As identified by the manager environment business and public policy, and the manager global conduct and in various BHP publications such as the annual report 1999 and 2000, the organisation had more than 60,000 employees by the mid-1990s. Following corporate restructuring this figure was reduced by almost half by the end of the decade. As will be identified later in the chapter, the restructuring of the organisation occurred at the same time the 'Guide to business conduct' system was being designed and introduced and in many ways had an adverse impact on the 'Guide to business conduct' development.

By any definition the total employment figure represents a very large organisation. BHP demonstrates specific structural characteristics that classify it predominantly as a diversified organisation. As identified in the introduction, the organisation has three main operating businesses or divisions: minerals, petroleum, and steel (BHP 1999b).

These three businesses operate largely semi-autonomous business units that are consistent with the diversified organisation as identified by Mintzberg (1998). The organisation has support groups including transport and logistics, corporate services, that includes the global business forum, human resources and strategic planning (BHP 1999b). These are clearly examples of functional grouping, located centrally at BHP headquarters in Melbourne. Additional groups such as, finance and legal services further characterise headquarters as providing support services to the rest of the organisation.

6.1.1 Key Parts of the Organisation

BHP comprises a variety of different groups and is high in geographical differentiation. Utilising Mintzberg's (1981) parts of the organisation the following can be identified:

6.1.1.1 The Strategic Apex:

The strategic apex of BHP can be characterised as head office that is located in Melbourne. As identified above, critical functional groups such as finance, HR and legal services are also located in head office.

6.1.1.2 The Middle Line

The middle line of the organisation can be considered the heads of the various business groups such as minerals, petroleum and steel.

6.1.1.3 The Operating Core

The operating core, the people who do the work of BHP, are effectively all of the members of the various divisions of the organisation who engage directly in its various businesses be they mining, exploration, refining or steel manufacturing

6.1.1.4 Support and Technocratic Staff

As identified in the introduction, services such as finance, strategy, legal services etc are located in the head office Melbourne. These groups would represent the technocratic and support staff as described by Mintzberg (1998). In relation to the total size of the organisation, identified as approximately 30,000 people at the end of the 1990s (BHP Billiton 2002), the one or two thousand people who make up this group can be described as relatively small. This is consistent with Mintzberg's contention that in a diversified organisation such groups are located in the strategic apex and the function of these is predominantly to provide guidelines for the rest of the organisation (Mintzberg 1981, 1983).

6.1.2 Centralisation, Formalisation and Complexity

Robbins (1990) suggests that there are three measures of structure. Several structural analysis questionnaires were distributed and completed by members of staff in BHP head office. The results are consistent with Mintzberg's descriptions of a diversified organisation. High scores on levels of formalisation suggest it relies heavily on standardisation through rules and policies. Relatively organisational high scores were also evident in complexity, which is not unexpected given the extent of differentiation both horizontal and geographical. Respondents also ranked BHP moderate to high in centralisation. This is once consistent with diversified organisations as decision-making is decentralised to the heads of divisions reinforcing their role as a key part of the organisation.

A characteristic of the diversified organisation is that each of the divisions has its own structure. According to Mintzberg (1983) these are typically mechanistic in nature and this appears to be consistent with the three operating businesses of BHP: minerals, petroleum and steel. Mintzberg (1998) suggests that the role of strategic apex is to establish performance control systems, in other words to standardise the outputs of the divisions so they can be measured and compared. They specifically identify that headquarters provides certain services common to all the divisions such as legal counsel and public relations. This is consistent with BHP head-office where such divisions exist, whose primary role is to provide advice and guidance to the rest of the

organisation. This is further evidenced by the example of the shipping division that also services the three main businesses of the organisation.

BHP can be considered to be a large organisation as during the period 1996 – 2000, the organisation employed in excess of 60,000 worldwide, which was reduced to approximately 30,000 personnel by 2000 (BHP 1999b). Child (1986) defines large organisational size as workforces in excess of 1000 employees and that large size leads to increased structural complexity which in turn leads to higher levels of formalisation or the reliance on rules and regulations to guide and control behaviour. Mintzberg (1981, 1983) has clearly defined very large size and high degrees of spatial differentiation, in particularly geographic, as characteristics of the diversified organisation. This section will describe the characteristics of organisational structure of the BHP; consistent with the model outlined in Chapter 3 and those structure issues that were argued as determinants of an appropriate ethical framework.

6.1.1.5 Coordination of Work

Mintzberg (1981, 1983) argues that in larger structures work is coordinated through standardisation of either work process or skills. Given the diversified nature of BHP, it cannot be said to produce one common product, rather the different sections of the organisation produce a diverse range of outputs ranging from iron-ore, finished steel, to diamonds, petroleum products, in addition to services such as shipping and insurance. However the strategic apex measures performance as standardised. An examination of BHP annual reports reveals that each division's performance and overall contribution to the organisation is essentially measured in the same way, typically through the contribution of each division to the financial performance of the overall company. This is consistent with Mintzberg's standardisation by output (Mintzberg 1981, 1985, 1998).

6.1.2 Grouping Strategy

An examination of BHP's Description of Business and Financial Statements 1999 reveals that the organisation is grouped together according to product or single unit grouping strategies (Daft & Steers 1986). The three principal areas of business described as evidence this:

- minerals exploration, production and processing (coal, iron ore),
- hydrocarbon exploration and production and finally,
- steel production (BHP 1999b).

These appear to be established as separate self-contained units within the organisation being given the titles of Minerals, Steel, and Petroleum with a further group identified as Service, which consists of four business units:

- transport and logistics: owns and manages a fleet of ships that carries BHP's raw-material and products and cargoes of non-BHP customers,
- information technology: provides systems integration and facilities management solutions to the organisation,
- engineering: offers a range of specialised engineering services and
- insurance: operates as an insurance broker and arranges for external insurance coverage (BHP 1999b)

These four principle units are clearly grouped together according to the nature of their business. Daft (2001) describes this approach as single unit or product-based grouping.

The focus of this research was based on data collected from head office, referred to in BHP's description of business and financial statement 1999 as the principal executive and registered offices of the organisation. It would be therefore appropriate to consider the grouping strategies used within this part of the organisation. As previously identified these offices are the headquarters of BHP, which Mintzberg (1981, 1983) describes as a strategic apex.

An examination of the services and functions contained within this location reveals areas such as human resource department, legal services, financial-services, and global practice, in addition to the CEO and senior executives. This tends to suggest that a functional grouping strategy is used within head office. As Daft (1995, 2001) suggests functional grouping strategies bring together individuals who share the same expertise, language and standards. This is consistent with Mintzberg's (1981, 1983, 1998) suggestion that the divisional or diversified organisation's internal units tend to be grouped on the basis of function. This also is consistent with the role of the strategic

apex, which is to provide experts services to the rest of the organisation. As identified by Child (1986) and Daft (1995, 2001) the significant advantage of functional grouping is the increased specialisation which results from the bringing together of expert knowledge in dedicated groups, as distinct from disseminating these experts among the rest of the business units.

We can therefore conclude that BHP appears consistent with Mintzberg's description of a diversified organisation using single unit grouping for its principal business activities. Within the strategic apex, as evidenced by the principal executive and registered office or headquarters, it uses functional grouping strategies.

6.1.3 Organisational Size.

In 1999 BHP employed approximately 60,000 people throughout its global operations. Of these approximately 30,000 were based in Australian operations. Outside Australia approximately 6000 were employed in North America, 2000 in South America, 2000 in New Zealand, 2500 in Africa, 2500 in Papua New Guinea and 3500 in South-East Asia (BHP, Annual Report, 1999). BHP clearly goes beyond Child's definition of large size. The organisation needs to be considered in the context of the divisional organisation as many of the employees belong to separate entities of BHP that are separate companies in their own right. Child (1986) suggests that organisational size can also be determined by measuring total output. BHP's total operating revenue was almost \$22 billion at the year ended 31 May 1999 (BHP 2000c). Thus in terms of both employment and revenue BHP would have to be deemed a very large organisation, according to Mintzberg a necessary characteristic of the diversified organisation configuration.

6.1.4 Organisational Complexity

The description of business activities highlighted significant geographical dispersion, which according to Robbins (1990) clearly demonstrates a high degree of complexity. Degrees of vertical and horizontal differentiation are also measures of complexity. Whilst BHP has not published an organisational structural chart that clearly identifies the number of hierarchical levels within the organisation, conclusions can be drawn concerning the level of horizontal differentiation. In 2000 four principal businesses or

divisions--Minerals, Steel, Petroleum and Services--were clearly identified indicating horizontal differentiation. It also had investments in other businesses including Foster's Brewing and the Orbital Engine Corporation. An examination of these businesses reveals even higher levels of differentiation and complexity for example: the Minerals Business Unit manages operations throughout Australia, Canada, Chile, Indonesia, Papua New Guinea, Peru and the United States, in addition to interests in iron-ore in Brazil and Venezuela. The minerals business operated a variety of mines in Australia and exploration and joint ventures with other organisations. It also operated internationally in the areas of diamonds, titanium, lead and zinc (BHP 1999b). These characteristics are replicated in the three other main businesses of BHP. Given that the overseas operations are self-contained units, these further demonstrate high degrees of complexity in the organisation.

As with the previous two case studies structural questionnaires were distributed to several members of the organisation as a means of gauging their perceptions of the current structure of BHP (as of 2 July 2000). Ten anonymous questionnaires were returned completed and the average score for the complexity indicator was 29/35. According to Robbins (1990), scores in excess of 27/35 can be interpreted as demonstrating high levels of complexity.

6.1.5 Formalisation and Control

In conversation with focus group members, it was their view that the organisation had many rules and procedures and several participants described these as mechanistic in nature. Numerous examples exist within the organisation that supports the view that BHP is a highly formalised organisation including; individual job descriptions, policies and procedures, and legal services. The focus of this chapter, BHP's ethical framework as represented by the 'Guide to business conduct', is an example of formalisation. This document details company policies and standards, issues and responsibilities and consequences of violations. This document is a standard set of defined behaviours that must be applied irrespective of the environment. This is a clear demonstration of the highly formalised organisation that seeks to establish clear behavioural control. Similarly detailed policies and procedures exist in other critical areas such as Occupational Health and Safety. Responses to the structural analysis

questionnaire indicated a very high score on formalisation. This is consistent with the mechanistic nature of the separate units within the diversified organisation.

6.1.6 Centralisation

Centralisation is the extent to which decision-making power within the organisation is concentrated at the strategic apex (Robbins 1990). As BHP is a diversified organisation, it is difficult to measure precise levels of centralisation throughout the entire organisation without conducting specific examination of the four separate businesses of BHP, which have been identified as highly internally differentiated. An examination of BHP headquarters seems to be consistent with Mintzberg's (1998) generalisations concerning diversified organisations, namely that decision-making is effectively decentralised to the separate business units for operational matters. Thus the organisation as a whole could be classified as decentralised and reinforcing the middle line (the strategic apex of the business units) as the key part. However, the units themselves tend to display mechanistic characteristics with high levels of centralisation. The role of headquarters seems also to be consistent, not only with a mechanistic structure as typified by the high level of formalisation identified above, but also with its primary role of providing the wider organisation with strategic direction and imposing standard policies and procedures by which the separate business units can be measured. As identified in the previous section the 'Guide to business conduct' and occupational health and safety policies are examples of this type of standardisation imposed centrally by the strategic apex. This suggests that the organisation is decentralised, based on the business units, but has centralised functions consistent with the role of the strategic apex in a diversified organisation, as defined by Mintzberg (1998).

Utilising Robbins' (1990) structural questionnaire the organisation scored a moderately high result from a possible 35 on the centralisation. This suggests high levels of centralisation for BHP. At first this seems inconsistent with the diversified organisation that displays moderate levels of decentralisation. However, it is consistent with a mechanistic form of the business units, which are highly centralised. Given the questionnaire was completed by middle and senior managers at headquarters, they would most likely to perceive the organisation as mechanistic.

6.1.7 Training and Indoctrination

Information provided by BHP related only to the provision of training services at BHP headquarters. According to members of the focus group many had been trained by in-house trainers and specialists predominantly in management related disciplines. The types of training related specifically to on the job issues and general management skills. Examples cited by focus group members included such as assertiveness, time-management and leadership training, in addition to orientation programmes for new employees. According to Mintzberg (1998) training and indoctrination in diversified organisations should be focused at the middle line level, in BHP's case, this would equate to the senior managerial level of the various divisions. This would be consistent with the role of the strategic apex establishing systems by which the division can be standardised. The 'Guide to business conduct' is an example of such standardisation. Flexibility is maintained by allowing the divisions to implement new policies in the way that they believe best suits their environments. However, at the time of data collection, the guide was a standard policy with no regional variations. Thus significant deviations from Mintzberg's suggested strategy can be identified at BHP. Rather than allow the divisions to adapt the global conduct system to account for divisional and regional differences, it was imposed on the organisation without modification. Secondly, no training was conducted at either HQ or divisional level suggesting that the key part of the organisation, the executives of BHP's divisions, may not have had sufficient understanding of the global conduct System and how it could best be introduced to their divisions.

6.1.8 Organisational Culture

The importance of organisational culture as a form of behavioural control and as a supportive element for formalisation was discussed as part of the literature review. Managers and members of the focus group referred to the importance of BHP's culture on numerous occasions. The manager EB&PP identified two distinct cultural periods of the organisation: pre 1998 and post 1998 the later characterised by attempts to modify the organisational culture including by the development of the global conduct system. Responses from the focus group, manager for environment business and public policy, and the manager external affairs gave consistent examples and descriptions of the culture as being managerial in nature and non-questioning of

authority. Focus group members specifically referred to this non-questioning characteristic as stifling debate and discussion around sensitive issues. As will be identified later in this chapter, BHP's own feedback from employees on the first draft of the guide included remarks that its's objective, openness and transparency, did not reflect the reality at BHP. In addition the manager EB&PP acknowledged that middle managers, particularly from the steel works division, resisted the guide believing it would undermine managerial prerogative making it harder for them to do their job. Focus group members also described the old culture (pre-1998) as mechanistic and bureaucratic in nature, consistent with Brown (1998) and Daft's (2003) classification of bureaucratic culture that can reinforce hierarchy and the chain of command. This is most typically found in mechanistic structures. Schwartz and Davis (1984) suggest that organisational culture need to be examined according to the degree of risk present when organisations seek to introduce change. Dunphy & Stace (1991) and Harvey and Brown (2001) classification of bureaucratic cultures include characteristics that suggest such cultures often prove an impediment to organisational change strategies.

6.2 Structural Configuration Conclusion and Ethical Systems Implications

Based on the description above it would appear that BHP best fits the description of a diversified organisation with each of its divisions primarily displaying characteristics of a machine organisation. As identified above the function of the strategic apex is to establish control systems and provide basic support services to the largely autonomous business units. The development of any ethical system therefore needs to be consistent with this structural form. While general guidelines can be produced for the whole organisation, the level of autonomy required by the individual divisions must also be recognized. Thus any ethical system must be adaptable according to the differences that exist in the various locations and business environs in which the different divisions operate.

6.3 The BHP Ethics Process

The organisation's approach to developing an ethical framework, which eventually culminated in the 'Guide to business conduct' booklet and the helpline, was developed in several distinct stages. Firstly, there was the impetus for the creation of a cohesive set of policies to do with conduct that can be directly attributed to a group of

executives responsible for overseeing BHP operations in foreign countries, known as the country managers. Secondly, there is the more substantial effort led by the manager of business environment and public policy which eventually produced the first edition of the 'Guide to business conduct' and thirdly, the period after the publication of the first guide which saw a change of CEO at BHP and the introduction of the company's charter or values statement. The following section outlines the chronological development of the ethics framework highlighting critical events and situations that affected the frameworks development.

6.3.1 The Country Managers: The Initial Impetus

According to BHP's manager of external affairs, the impetus for a guide to business conduct can in fact be traced back to the early 1990s. He suggests that the organisation had established a reputation as a reputable and ethical company, and that this had been achieved without any specific strategy or set of policies. He suggests that during the 1980s and early 1990s, BHP had moved from essentially an Australian organisation to one with significant overseas investment and operations. It was as a result of the internationalisation of BHP and experiences of managers who were given responsibilities for overseas operations that an awareness of different standards of behaviour in different countries was recognised. The manager of external affairs also cites the experience of energy company Shell and its independent subsidiary in Nigeria, in addition to the negative publicity around its Brent Spar platform in the North Sea during the early 1990s as a major concern for senior managers at BHP. They believed the absence of standard guidelines of conduct for overseas operations could expose the organisation to similar risk.

According to the manager of business environment and public policy, an informal group within the organisation known as the country managers, that included executives primarily in charge of BHP operations in developing countries such as: Indonesia, Venezuela, South Africa, Papua New Guinea, and Chile, met on a semi-regular basis to discuss areas of common interest. One of these was corruption and bribery and how these impacted on BHP operations. This group formed a working party with an objective of bringing together existing BHP divisional policies relating to areas such as human resources, legal services and occupational health and safety,

and to establish consistent that could be used in order to assist managers in charge of foreign operations.

As suggested by the manager of business environment and public policy while this task had been delegated to human resources and legal services within BHP headquarters and on going for several years, little had been produced. It was in early 1990 that the manager BE&PP joined the organisation from a similar position in the public sector. Shortly after assuming this role he was asked to join in the group that had been investigating issues of standards of conduct. This can be seen as the start of the second and most productive period in the formation of the BHP ethics process.

6.3.2 Investigation, Consultation and Design

The manager BE&PP took charge of the research into existing policies within BHP and identified a document known as *The executive handbook*. He suggests that this book was a series of guidelines which applied specifically to senior executives and detailed such matters as; appointment to other company boards, non-BHP appointments or engaging in non-BHP work and the sensitive issue of spouses who worked with or may have involvement with companies associated with BHP. The manager BE&PP suggested that this book was a well-kept secret amongst senior executives.

Similarly, he described documents which were scattered throughout the organisation, however, no one single document was available to staff which clarified the organisation's position on such issues as corruption, gift giving, entertainment and differing standards in different countries. It was shortly after his appointment to this committee that it adopted a broader focus with the objective of developing a general guide to business standards.

Two specific tasks were undertaken at this point. Firstly the manager BE&PP knew of a BHP consultant, Ron Miller, who had been a supplier of services and equipment to its coal operations division and thus had an understanding of the organisation. More importantly, Miller had developed an interest in company ethics programs, particularly from a US perspective and had attended several conferences in the United States dealing with the area of company conduct. Miller was brought on board as a

consultant to the project and according to the manager BE&PP was able to provide not only specific data about company strategies and approaches based on US models, but could also provide contacts in the United States who could assist with the development of the BHP global conduct system. The second major activity at this time was a search for Australian sources and experts in the field of ethics. The St James Ethics Centre and its CEO Simon Longstaff were identified and an ongoing relationship was established. According to the manager of business environment and public policy, the purpose of these two steps was to identify world's best practice in the field of corporate conduct. He stated the result was a focus on US data and models that seemed more appropriate for larger organisations with an emphasis on regulating employee conduct.

6.3.3 Drafting the Guide.

The next step in the process was the examination of the material and policies collected by: Miller, the country managers and the HR and legal services group. Several informal meetings took place with Simon Longstaff, manager BE&PP and consultant Miller from which a draft guide to conduct was written. According to the manager of business environment and public policy, Longstaff reviewed this document before being presented to senior executives of the organisation.

According to the manager of business environment and public policy, it was at this time that he began to understand that the guide or booklet could only be one of several strategies designed to encourage appropriate corporate behaviour. He suggests that in discussions with Simon Longstaff the issue of reporting mechanisms and a range of other processes including the global forum, and a helpline modelled on the St James Ethics Centre's helpline would be needed. A suggestion of outsourcing these strategies was made at this time, however he believed that if the organisation were to communicate its commitment to the process to its employees, it would need it to resource such strategies internally. The first draft of the 'Guide to business conduct' was referred to executives including the then CEO, John Prescott, and country managers for comment and feedback.

6.3.4 Redrafting and Consultation

As a result of the initial feedback from the executive, a go-ahead from the CEO was given to design a complete draft document that could be used by all employees. According to the manager of business environment and public policy, in consultation with Longstaff, the draft was re-edited and then professionally typeset to include graphics and pictures to make the document more appealing. In all over 20,000 copies were printed and circulated to approximately one third of the total employees, with a view to receiving feedback regarding its suitability and application to everyday practice. Based on the research conducted on existing BHP policies and resources, an American employee, who had experience with codes of conduct, was brought in to the project team and asked to oversee distribution of drafts utilising human-resources networks within BHP and to co-ordinate feedback.

6.3.4.1 Consultation Mechanisms

In addition to individual feedback, approximately 80 focus groups were formed in the different parts of the organisation to discuss the draft guide and its suitability. The manager BE&PP indicated that resistance was encountered in particular from the steel group section (division) that did not want such matters discussed openly. He believed that middle managers within these different groups in the steel section resisted the draft document as they saw it as a way of encouraging employees to challenge managerial prerogative. He further suggested that such resistance to the guide was identified throughout the feedback process and this was consistent with the culture of BHP at that time.

The manager BE&PP indicated that 500 cases of documented feedback were received of which almost 80 were focus-group findings. Thus the level of participation was higher than the 500 individual incidents might indicate. The general feedback, according to the manager, was that the majority of employees agreed with the sentiments of the document, however, it did not reflect the way people actually worked in BHP. He suggests that there was a strong undercurrent, particularly from the shop floor level, that the guide reflected lip service by senior executives and was not to be taken seriously. The manager BE&PP indicated that the then CEO Prescott, was not particularly pleased with the content of the draft, however he did not elaborate

precisely on the nature of the dissatisfaction. He was however able to secure a commitment from Prescott for a revised and expanded guide based on the feedback received.

According to the manager BE&PP as a result changes were made to the draft document that included clarifying statements and a question and answer section that was designed to illustrate policies and principles. By February 1997, the draft document had been reviewed and final strategies devised prior to launch, including: approaches to dissemination, establishment and purpose of the global forum, a committee designed to oversee and maintain the guide and the establishment of the reporting hot line system, a worldwide counselling and reporting service. The first edition of the 'Guide to business conduct' had its major launch in early 1997. Its release was publicised in company newsletters, and over 60,000 copies were printed with the intention of each employee receiving a copy. The hot line telephone number was also printed on all employee payslips. At this pointing the process, the manager BE&PP withdrew from the project and a new manager for business conduct appointed with responsibility for the guide, acting as secretary to the global forum and to manage and review the guide.

6.3.5 Initial Review

According to the manager BE&PP, in hindsight, the 'Guide to business conduct' conduct lacked a broader context. These were issues discussed at executive level and with the global forum. He suggests that the change in CEO from John Prescott to Paul Anderson was a major factor in refocusing the guide through the development of the BHP charter or values statement; subsequently included as an introduction in the booklet.

6.3.6 Support Mechanisms

Ethical systems cannot solely rely on a single document such as a code of conduct or code of ethics. Typically strategies concerning communicating existence of the policies in an ongoing fashion and training and development are the most common forms of support mechanisms.

6.3.6.1 Communication Strategies

The manager BE&PP suggested that specific communication strategies in support of the guide revolved around ensuring all employees had a copy of the guide and that the helpline telephone number was printed on all salary and pay slips. He further identified that only the thirty per cent of employees actually received a copy of the guide at that time. In addition he suggested that they were major problems in conveying information via the payslips, as there were over 200 pay points or pay offices within the organisation.

The organisation also established a website in 2000 which essentially provided the same information as the guide and contact details for the help line. According to the manager BE&PP another communications strategy was to encourage senior managers of the organisation to mention the guide and to reinforce its importance. It was felt that in this way people would be encouraged to discuss ethical issues and referred to the guide on regular basis. It was unclear as to how senior managers were encouraged to raise these issues. The next section confirms that no formal training and development was provided to managers or employees concerning ethics or the guide. It can therefore be concluded that these were informal requests made of senior managers by the manager of business environment and public policy.

6.3.6.2 Training and Development.

The need for ethics training to support the global conduct system was recognised at the time, however, a difference of opinion arose between the manager BE&PP and the human resources department concerning training philosophy. He stated that he supported the inclusion of specific ethics training based around realistic case studies sourced from the United States. He suggested that the human resources section refused to incorporate the material arguing that such issues are best dealt with within existing training programmes rather than as stand-alone content. It is his view that as a result no ethics training was delivered to any head office staff. He further stated that to his knowledge no trainers at BHP headquarters, at that time, had any expertise in the field of business ethics. The lack of training support is further evidenced by focus group responses that none of the members could recall being trained in ethics or been given specific training on how to use the 'Guide to business conduct'. Two members of the

focus group did however acknowledge that during orientation, as new employees, reference was made to the guide.

6.3.6.3 Training and Development for Members of the Global Forum

The global forum was identified as an important support mechanism providing a review process. The membership of this forum consisted of representatives from each of the four business groups in addition to members from human resources, international and legal and two persons from outside the organisation. Given the role of this particular group it was reasonable to expect them to have an understanding of ethics and the role of codes in modifying behaviour. As previously identified Simon Longstaff, initially hired as a consultant to BHP, was appointed as one of the external or independent members of the global forum.

According to the manager of BE&PP, Longstaff's involvement in the initial stages sensitised the members of the global forum to ethical issues, however, no specific training and development was provided to forum members. The manager BE&PP recalls that at the time it was believed that Longstaff's involvement would encourage members to come up to speed on ethical issues. He also stated that it was felt that given the seniority of the members, their experience would provide the basis for an understanding of the role and function of the Forum and the complexities of the ethical issues that they were to deal with. He acknowledges that in hindsight this may not have been an effective strategy.

6.3.6.3 Motivation Strategies

Discussions were held with HR with respect to encouraging employees to follow a code other than through communication strategies. In particular, issues of performance management and remuneration were addressed. The manager BE&PP identified that it was the then CEO Prescott's view that such strategies were not necessary as the 'Guide to business conduct' was BHP policy and employees were bound or required to follow it. This is also evidenced by the guide itself identifies behavioural strategies of reward and punishment through existing BHP discipline and grievance procedures and/or the threat of criminal prosecution for serious violations of the guide. These two examples suggest that the guide did not have structured reinforcement strategies,

rather, existing policies and procedures were used as the basis for motivating employees to follow the guide.

6.4 Analysis of the BHP Ethics Framework.

Having described the various activities undertaken in the design and introduction of the 'Guide to business conduct' at BHP, the following sections will analyse this process to establish whether the guide is an appropriate framework. Firstly, the approach will be classified using Mintzberg's configuration approach. Secondly, the appropriateness of the guide will be considered against the structural characteristics of the organisation. Lastly, a critique of the framework and its implementation process will be made before conclusions are drawn.

The heart of the BHP ethical framework is the 'Guide to business conduct' booklet. The purpose of which is to provide a common behavioural framework for all employees, regardless of the specific job or location around the world. There is a clear statement in the guide that exemplary business worldwide is one of its key objectives, in addition promoting awareness of business standards amongst its employees, customers, lenders, shareholders, suppliers and other external stakeholders (BHP 1999b).

6.4.1 The Guide to Business Conduct

The 'Guide to business conduct' as at 1 January 1999 was a 54-page booklet of eight sections.

1. Introduction
2. A Statement of Vision, Values, and Strategic Themes
3. General Guidelines for Business Conduct
4. Company Policies and Standards
5. Violations of Company Policies and Standards
6. Accountability
7. Dealing with a Concern
8. Conclusion

A brief overview of the content of each will serve as the basis for determining the nature of the document, that is, whether it is a code of ethics or code of conduct, followed by a discussion of support, maintenance mechanisms and the evaluation and review process established for the guide.

6.4.1.1 The Introduction Section

The guide's introduction identifies the main purpose of the booklet as assisting employees when making decisions in relation to business conduct. The guide includes a statement that it will be published in multiple languages, including: English, Indonesian, Malaysia, Mandarin, Spanish, Thai and Vietnamese.

The guide identifies itself as a set of BHP company policies and standards and that these should be regarded as rules. However it notes that employees are often faced with questions to which there are no clear answers. It therefore offers general guidelines that can help employees deal with these complicated issues. It also indicates where to go for assistance when making difficult decisions (BHP 1999b). Three other purposes of the guide are identified.

1. to ensure that all BHP employees, consultants, contractors and partners understand the company's expectations about business (BHP 1999b).
2. to encourage honest and open discussion about business conduct issues faced in a global operation (BHP 1999b).
3. to promote awareness of BHP's business conduct standards among communities, customers, lender's, shareholders, suppliers and other external stakeholders (BHP 1999b).

A stated objective in the guide is to enhance company reputation and its ability to operate in a global setting (BHP 1999b).

6.4.1.2 The Statement of Vision, Values, and Strategic Themes Section

Two brief sections then follow which provide an overall framework for the business conduct guide, a section on vision, values and strategic themes provide a foundation for the guide. Three strategic themes are stated:

1. *The mandate to operate*: The critical issues identified in this theme are: to provide for safety in both the environment and in terms of community relations (BHP 1999b).
2. *The ability to grow*: Two points are identified; risk management and leadership and learning (BHP 1999b).
3. *Delivering results*: Three key points are identified; market development and delivering value for customers, maximising values and one company growing worldwide (BHP 1999b).

BHP's vision, values, and strategic themes, describe who they are and what they aspired to be as a company; seeking to be the world's best resource company. It is committed to the development of employees, consistently delivering benefits to customers, contributing to the communities in which they live and work with a high standard of care for the environment. The guide states that BHP uses safety, honesty and excellence in all that it does and it concludes that it will work together as one company to fulfil these values (BHP 1999b).

While this section of the guide refers to 'values', it is more consistent with a mission statement, a general statement of organisational purpose. According to Ivancevich and Matheson (1989) such statements are strategic policy statements providing guidance for other organisational policies. Mission statements are consistent with Aristotlean approaches that advocate the need for purposefulness (Solomon 1986). In BHP's case these can be identified through statements such as 'a high standard of care for the environment....BHP uses safety, honesty and excellence in all that it does' (BHP 1999b, p. 4). However, such statements appear not to be supported by definitions or explanations of appropriate behaviours or characteristics that typify such values.

6.4.1.3 The General Guidelines for Business Conduct Section

The next part of the 'Guide to business conduct' is the general guidelines section. This consists of two pages which tend to provide general statements concerning two aspects; firstly principles and the behaviours which should form the general framework in which employees are expected to act, and secondly the role of leadership within BHP.

6.4.1.3.1 Principles and Behaviours

Eleven key principles are identified with each principal having a clarifying statement. These can be described as a series of ethical principles upon which the latter Guide is based. The eleven principles include:

1. *Compliance with the law.* We must comply with the letter and, where it is clear, the spirit of all laws and regulations relating to the way in which BHP conducts its business (BHP 1999b).
2. *Honesty, integrity and fairness.* We must act in an honest and fair manner. We must strive to earn and maintain the respect and trust of her co-workers, customers, their communities in which it operates, and others affected by a business (BHP 1999b).
3. *Excellence.* We must strive for excellence in our performance and in the products and services we offer. We must complete projects in an efficient and timely manner (BHP 1999b).

These statements are of a mix of both formal rules and aspiration. Principles 1 refers to laws and compliance while principles 2 and 3 refer to characteristics or values that members of BHP are expected to demonstrate. The use of values and character based statements is consistent with virtue based ethics. According to Buchholz (1989); Donaldson (1989); Solomon (1996) and Trevino and Nelson (1999) virtue based approaches focus on the integrity of the moral actor rather than the act itself. Typically such approaches emphasise principles such as honesty, integrity and fairness as the basis for guiding action. Child (1986) and Schein (1997) cite similar characteristics as examples of the organisation's culture. However, the use of the term 'must' actually

turns what would normally be regarded as an aspiration, into a directive. Thus these principles are in effect rules and regulations that must be followed. As reported by the manager BE&PP, the former CEO Prescott, believed that the guide was BHP policy that employees automatically should have followed. This suggests that the guide essentially promotes a prescriptive approach to employee conduct.

6.4.1.3.2 Leadership

This is the second major point under the general guidelines section. It states that effective leadership it is essential for BHP's continued success. It notes that leaders demonstrate how BHP's values and standards translate into behaviour and decision-making. It clearly identifies that all employees are responsible for assuming leadership in BHP. It describes leadership in all cases as meaning:

1. Acting in accordance with company policies and standards (BHP 1999b).
2. Seeking and sharing information ideas and experiences, leaders support creativity and innovation in the workplace, honesty and openness in others (BHP 1999b).
3. Acting decisively with a focus on excellence leaders make timely informed decisions. They are determined to achieve goals, but never at the expense of breaching the company's policies or standards (BHP 1999b).
4. Listening to, communicating clearly and honestly with all stakeholders, leaders ask questions and raised concerns,
5. Developing other leaders by encouraging and supporting them (BHP 1999b).

It appears that the purpose of these statements is to convey the responsibility of all employees to assume leadership or role modelling behaviour. This seems to be a formalisation of the concepts regarding the importance of role modelling in establishing appropriate standards, consistent roles, played by leaders in developing and maintaining culture (Petrick & Quinn 1997; Schein 1997; Scott 1998).

6.4.1.4 The Company Policies and Standards Section

The most extensive part of the ‘Guide to business conduct’ is that on company policies and standards. This accounts for 38 of the guide’s 54 pages, containing 17 sub sections dealing with a specific policy and clarifying the standard associated with that policy. Each of the standards contains a question and answer section that clarifies the required behaviour. For example, the first policy and standard relates to compliance with the law. Several paragraphs describe the company policy in general terms and the need to abide or comply with the legal requirements of the country in which employees are working. Reference is made to specific laws, such as the Trade Practices Act in Australia and the anti-trust laws of the United States, as a means of clarification. Advice is also provided when employees are uncertain of the legality of a particular act or issue (BHP 1999b).

As described above, a question is posed as a means of illustrating the policy. The following example illustrates the approach.

What happens if there is a conflict between the policy and the law in a country in which we operate (BHP 1999b, p 22). The answer given is:

The country managers and senior management within business units are responsible for providing the instructions to employees about how to deal with conflicts between particular laws and BHP policies. If you find that a BHP policy conflicts with a local law, you should report the discrepancy to your manager or supervisor. It is essential for the company to be aware of cases in which its policies are inconsistent with local requirements (BHP, 1999b, p. 22).

This same approach is taken for all 17 policies. In addition to compliance with the law, statements concerning the following are made and discussed in the guide: Occupational health and safety, alcohol, drug and tobacco use, environment, equality in employment, confidentiality, public release of company information, using and accounting for company resources, information systems, relationships with governments, political contributions and activities, financial inducements, use of third parties and agents, gifts and entertainment, conflicts of interest, outside activities and cultural sensitivity.

This can be seen as an extensive list endeavouring to provide clear guidance on desired behavioural standards. Codes of conduct are specific to individual action prescribing acceptable and unacceptable behaviour. Examples such as policies on gift giving and procedures for reporting fraud are evident in the BHP guide suggesting it is a code of conduct. This is clearly consistent with the characteristics identified by Buchholz (1989); Paine (1994) and Steinmann and Olbricht (1996) that a compliance approach rests on external standards that exist in society such as the rule of law, which the organisation internalises through formal policies and procedures. Its primary objective is to prevent misconduct within the organisation. This is directed at criminal conduct such as fraud, bribery and corruption within the organisation.

6.4.1.5 The Violations of Company Policies and Standards Section

The next section in the guide is a one-page statement on the violations of company policies and standards. It states clearly that all employees are expected to adhere to the policies and standards as described in the guide, and that employees who violate these policies will standards may be subject to disciplinary action up to and including dismissal. Furthermore employees found guilty of violating laws of a country may also be referred to the appropriate enforcement authority (BHP 1999b).

This section also advises that managers and supervisors will be held accountable for their own conduct and that of their staff. It also details examples of disciplinary alternatives such as written warnings, counselling on misconduct and demotion to low-status position and responsibility in addition to suspension and dismissal as possible consequences of breaches of company policy standards. A final statement states that the company will not tolerate any form of punishment or disciplinary action taken against employees arising from compliance with BHP's policies and standards. This section tends to reinforce the policy, the behaviour standards and importantly seeks to address motivational techniques or compliance mechanisms associated with policy breaches (BHP 1999b).

6.4.1.6 The Accountability Section

The next section of the 'Guide to business conduct' identifies accountability in the form of responsibilities of employees, responsibilities of managers and supervisors, responsibilities of the board and chief executive officers, the role of the global

business forum. The reporting and evaluation of each are also described with several key statements illustrating the responsibility, for example, under responsibilities of managers and supervisors it states that managers and supervisors must take all reasonable steps to ensure BHP's employees and where appropriate, consultants, contractors and partners are aware of, and comply with, the policies and standards in the guide. They must consult the next level of management if problems occur. Managers and supervisors must also ensure that employees have access to company policies and procedures, respond promptly and see to employees' concerns and questions about business conduct issues, seek further assistance required and demonstrate exemplary behaviour that other employees can follow.

Similarly the section on global business conduct forum identifies its purpose as to promote effective implementation of the guide and as having four broad objectives:

1. To serve as an informational resource for employees and business units regarding the ability to comply the policies and standards in the guide (BHP 1999b).
2. To provide a mechanism for sharing experience across the company in relation to business conduct issues (BHP 1999b).
3. To regularly review the guide and when necessary, modify it or produce supplementary guidance (BHP 1999b).
4. To report regularly on compliance with the guide and emerging policy issues (BHP 1999b).

Details are also given concerning the forum's make up from representatives from within BHP and meeting schedule (BHP 1999b).

6.4.1.7 The Dealing with a Concern Section

The final substantive section in the guide provides details on dealing with concerns or complaints. It outlines critical questions employees are expected to ask themselves when confronted by an issue, before deciding to act. Six questions are provided, the purpose of which is clearly to assist an employee to clarify whether a particular issue is an ethical one or not.

Question 1: Could my behaviour directly or indirectly cause injury or endanger anyone's health?

Question 2: Would my behaviour comply with all relevant laws and regulations?

Question 3: Would my behaviour violate any company policies or standards?

Question 4: Would this behaviour make me feel uncomfortable or uneasy?

Question 5: Would I feel uncomfortable telling my family and friends about my behaviour?

Question 6: How would this behaviour appear to others if it were described in newspaper headlines or on the television news?

These questions parallel Velasquez's (1996) critical ethical thinking model along with Francis's (2000) ethical model. This can be seen as an attempt to encourage employees to analyse a situation from a variety of different ethical perspectives including:

- Consequentialism: questions 1 and 6 assess the impacts on self and others,
- Deontology: questions 2 & 3 assess the decision against law and policy and procedures
- Virtue ethic: question 4 asks how others would judge the decision maker in terms of character.

Lastly, details are provided us to where to go for assistance when employees feel that business policies had been violated. This includes advice relating to the seriousness of the problem, appropriate BHP level of management, or the section that should be referred to. In addition a helpline is also identified to enable individuals to report violations while remaining anonymous. The purpose of the helpline is to provide advice and guidance concerning any potential policy breaches (BHP 1999b).

6.4.1.8 Conclusion Section

The conclusion consists of two brief paragraphs, the first reinforcing the rigorous application of the principles outlined in the guide and identifying the responsibility of all employees to ensure appropriate business conduct. The second paragraph importantly acknowledges that the booklet is a first edition and that 'in future years, it may be necessary to revise the document to reflect new experiences, what we have

learned and changes in legislations or business practices in the country which BHP operates' (BHP 1999b, p. 47).

The 'Guide to business conduct' can therefore be described as a comprehensive document that outlines the strategic importance of appropriate standards by identifying visions, values and themes. It contains a series of ethical principles designed to guide behaviour. It establishes, in detail, a code of conduct for seventeen specific behavioural areas with clear guidance on the responsibilities and accountability of employees and a reporting system that includes anonymity.

Mechanistic structures achieve coordination of activities through standardisation of work of the operating core, in other words, through rules and regulations. Discretion in such organisation is limited (Mintzberg 1998). The level of formalisation is relatively high, also supported by the calculation of the level of formalisation identified earlier in the chapter. This suggests that formal, structured rules based code of conduct system such as Paine's compliance based approach as more appropriate for mechanistic structures. Being a diversified organisation with divisions tending to machine bureaucracies, BHP would typically create systems that attempt to standardise the work not only of employees but also the divisions. The 'Guide to business conduct' is clearly a standardised rule based code of conduct that applies to all BHP employees, irrespective of their location.

6.4.1 Support Mechanisms

Ethical systems cannot solely rely on a single document or code to encourage ethical behaviour. Strategies communicating the existence of policies, changes to the reward systems, and training and development are common forms of support mechanisms. BHP has developed several key support strategies .

6.4.2 Communication Strategies

The organisation clearly established recognition of the guide and the hotline among its employees as suggested by members of the focus group who were aware of the booklet. The role modelling and championing of the BHP charter by CEO Anderson can also be seen as a positive communication and cultural strategy. Campbell and

Tawadey (1992), Longstaff (1994), Petrick and Quinn (1997), Scott (1998) and Solomon (1992) support the concepts of role modelling in organisations as a significant part of establishing appropriate moral standards. Mintzberg (1998) concurs, identifying the 'figurehead' role as one of the ten critical functions of managers. However, the lack of on-going communication strategies is also clearly evidenced by focus group members with most acknowledging they had not read the booklet in its entirety. Many also acknowledged that they did not use the booklet for day-to-day decision-making. As no statistics were available on the hotline usage at the time of data collection, little inference can be drawn concerning its effectiveness as a reporting mechanism.

6.4.2.1 Training and Development.

As identified earlier in this chapter, no business ethics training was provided for members of the global forum, nor was it considered appropriate by BHP trainers to conduct specific ethics training with staff on the use of the 'Guide to business conduct' booklet. The lack of training support is further evidenced by focus group responses that none could ever recall being trained in ethics, given specific training on how to use the guide, or recalled ethics being raised in any training program.

As identified in the literature review, training and development in ethics and in the use of codes and decision making systems is supported by numerous authors including: Driscoll and Hoffman (1999); Francis (2001); Hoffman (1995) Verschoor (2000a) and Trevino & Nelson (1999). According to Trevino, Weaver, Gibson & Ley-Toffler (1999) and Young (1999), an effective approach to ethics training is to start with executive managers and allow it to cascade down the organisation. In this way, managers, through demonstrating leadership, training their employees and encouraging discussion of critical issues, can build commitment. This is supported by Connock & Johns (1995, pp. 116) who identify that effective training and development programmes must have 'universal significance and [be] emphasised through comprehensive exposure to training and indoctrination' and that this should be mandatory. Rothwell & Kazanas (1990) identify training as a strategic change tool in that key staff can be trained, then act as internal change agents within their work areas. As Hall (1985) and Burns (1996) identify, no new employee is job or organisation ready. Individuals must be socialised into a culture and given appropriate on the job

training so as to reduce the transition time between ineffective new starts and productive employees.

6.4.2.2 Orientation

Child (1986) argues cultural mechanisms, as a means of moderating behaviour, need to be embedded in accepted policies and procedures. As noted by several members of the focus group, the 'Guide to business conduct' was referred to in recent orientation programmes for new employees. The inclusion of the guide in orientation programmes is seen as an important step in the socialisation process. Driscoll and Hoffman (1999); Ferrell, Fraedrich & Ferrell (2001) and Richie (1996) state the importance of socialising new employees to the values and beliefs of the organisation and therefore can be seen as supportive of the BHP approach. However, focus group members also made the point that this was only a verbal reference to the guide and that no actual training in the use of the guide was provided. French and Granose (1996) argue that most individuals are not exposed to ethical theory and concepts. Moral reasoning skills need to be developed through appropriate training. In addition, they identify discourse as a necessary process to establish consensus as to what the code actually means. Clearly, the lack of ethics training for new start employees undermines the socialisation process.

As no specific training occurred in support of the guide, individual interpretations of appropriate conduct are likely rather than a cohesive organisational one. This is inconsistent with the purpose of the guide to standardise, not individualise, behaviour.

6.4.2.3 Training and Development for Members of the Global Forum

As identified earlier in this chapter, members of the global forum were expected to be sensitised to the issues of ethics by the presence of Simon Longstaff, CEO of the St James Ethics Centre. Given the research reported by Trevino et al. (1999) that training should commence with senior managers and cascade through the organisation, it is reasonable to question the appropriateness of the BHP strategy. It is difficult to expect a group of managers, even senior executives, to not only learn and understand ethical concepts, but also to be knowledgeable in strategies for codes of ethics, training, maintenance and evaluation strategies. This would appear to be critical knowledge

given the forum's role in overseeing the global conduct system. The manager of environment business and public policy acknowledged that in hindsight this may not had been an effective strategy.

6.4.2.4 Motivation Strategies

Examples have already been cited that suggests that the 'Guide to business conduct' did not have a structured reinforcement strategy; rather, existing policies and procedures were used as the basis for motivating employees to follow the guide. Focus group examples of a senior manager being disciplined for contravening the guide's policies on entertainment and the focus group members' satisfaction with the outcome, suggest that when applied and publicised, basic punishment systems can be effective in reinforcing the importance of compliance. However, as Trevino et al. (1999) identified, employee perception of ethical behaviour being rewarded was more important than unethical behaviour being punished. As BHP did not build into its policies strategies for encouraging ethical behaviour through its performance management, promotion and remuneration strategies, it is difficult to classify the global conduct system as being a proactive ethical system. It focuses on discouraging unethical behaviour rather than encouraging ethical behaviour. As identified by the focus group, no rewards are provided for being ethical.

6.4.2.5 Reporting and Evaluation Mechanisms

In their design of the global conduct system, the reporting of data establishing the use and effectiveness of the guide, in particular the hotline was to have been a crucial function. According to the manager EB&PP, the intention was to monitor the hotline and identify types of critical issues which were being raised and in using this data to protect individuals who 'had the guts to actually come up with the issues that are difficult, because the natural response of BHP was either to close the conversation down, or even worse to actually punish those who raised it' (in conversation, manager EB&PP, June, 2000). This information was then to be presented to the global forum and to be published in the same way that BHP publishes information on incidents and health and safety records.

As at the completion of the primary research for this thesis within BHP (end of May 2001), no information or statistics had been collected or published by the organisation. According to the manager environment, business and public policy, this was largely due to financial cuts instigated across the entire organisation. This has been documented in other parts of this chapter and evidenced by the significant downsizing between 1997 and 2000. He suggests that this cost cutting left little money for any ongoing strategies other than global forum meetings and the hotline.

The global forum was established to oversee the guide to business conduct and its intended support systems. It was not intended to provide a forum to solve ethical issues other than in extreme or critical cases. According to the manager EB&PP, it was to be the forum where the global system could be examined, via reports on the type of ethical problems faced by BHP, the usage of the hotline and the effectiveness of the 'Guide to business conduct' booklet as a means of solving a typical dilemma. As was identified in the previous paragraph, as at the conclusion of the research some two years after the implementation of the guide, no statistics had been collected or presented to the global conduct forum.

6.4.2.6 Ethical Disputes Procedures

As identified in the above paragraph, existing BHP policies would be used in order to solve all problems. In the event of an individual contravening the policies described in the guide normal procedure would be followed including an informal warning, a first formal warning, a second formal warning and a third and final warning prior to dismissal. The BHP policy does identify that the seriousness of any transgression must also be taken into account. In other words, it is possible for an individual to be dismissed if a serious breach was found to have occurred.

In terms of resolving ethical issues, the guide provides only generalised guidelines recommending immediate managers or divisional heads be consulted. While the hotline is also part of the dispute or reporting procedure, it is unclear how matters would be pursued once a report was been made. At the time of writing no information was provided concerning how these matters would be dealt with following an anonymous report. The global forum was identified by the manager EB&PP as the mechanism for dealing with major ethical cases; however, it was not intended to be a

clearinghouse or an ethics resolution committee. At the time of concluding the research for this chapter no information had been provided to concerning the number of specific cases addressed by the global forum.

6.4.3 Structural Changes

Several significant structural changes to BHP can be identified as result of the introduction of the guide to business conduct. Firstly, the creation of the guide itself as BHP policy has increased formalisation within the organisation, by increasing the number of rules and regulations that individuals must follow. This has increased the level of formalisation and the mechanistic nature of BHP. Secondly, the creation of the global forum is also an example of increasing complexity through the creation of a co-ordinating committee. This is consistent with strategies identified by various structural theorists such as Lawrence and Lorsch (1967) who identify liaison committees as a strategy by which bureaucratic structures can integrate activity.

The appointment of the global conduct manager, establishment of the forum, introduction of the guide and hotline are all changes to BHP's organisational structure increasing the size, complexity and levels of formalisation. Donaldson (1989); Driscoll and Hoffman (1999) and Hoffman (1995) identify that successful ethics systems require changes to organisational structure. Importantly, they identify the need for an executive level committee with responsibility for the ethics system. This is consistent with BHP's creation of the global forum. They also identify the need for an ethics officer or manager to oversee the day-to-day issues, the global conduct manager is consistent with this model (Hoffman 1995).

6.4.3.1 Informal Structure Changes

BHP has increased the level of complexity in the organisation by increasing the number of rules that employees must follow. Whilst this is a clear example of formal structural additions, one must also recognise the flow-on of these decisions that Child (1986) termed the ripple effect. It is likely that these new policies will not only affect the behaviour of employees, but are also likely to create additional work. For example, the guide specifically directs employees to use existing discipline and grievance procedures as the ethical disputes system. It also directs employees to raise issues with

their immediate supervisor, manager or the relevant country manager. This has added duties to these managers as, in addition to the normal duties, they must facilitate and perhaps resolve ethical disputes. Information provided by focus group suggests that these additional duties are not necessarily documented in formal job descriptions. This is also consistent with mechanistic structures as identified by Child (1986) and Daft (2001) where new rules and procedures often increase the work requirements in ways not originally envisioned by the policy makers.

6.4.3.2 Evaluation Process

The 'Guide to business conduct' was due for evaluation in 2001. At the time of data collection within the organisation this process had not yet commenced. The global conduct manager identified that statistics on the hot line usage and the types of problems raised had not been compiled by the organisation. It is therefore likely that original strategies such as focus groups and informal feedback in addition to contributions from senior managers and from the global forum would be the basis for any renewal. The guide does identify the need for review; however, a specific time frame is not identified.

6.5 Structural Analysis

BHP's structure has been defined as a diversified organisational form in which headquarters acts as the strategic apex and separate businesses of steel, mining, petroleum and services are the divisions of the organisation. According to Mintzberg (1998) diversified organisations are essentially mechanistic but achieve a high degree of flexibility by maintaining the divisions as semi-autonomous units, each being able to adapt to different environments. Mechanistic organisations typically would adopt formalised approaches to ethics that would include detailed guides to behaviour regarding what is and is not acceptable. In a diversified organisation it is the strategic apex that establishes principles and policies for the rest of the organisation to follow. This initially appears consistent with the strategy followed by BHP as the 'Guide to business conduct' was developed by headquarters, however, as previously identified, rather than establish guidelines that each of the divisions would modify to suit the differing environmental contexts, BHP headquarters imposed the guide as a series of rules on the rest of the organisation.

In mechanistic structures, the technostructure tends to dominate (Mintzberg 1981, 1983, 1998). As identified by the manager EB&PP, decisions concerning critical reinforcement strategies and motivational strategies such as training and development and remuneration were determined by the human resources division's training section. This example supports Mintzberg's assertion that traditional hierarchical positions do not necessarily have the ability to determine or complete decisions. Despite the manager EB&PP being part of the team responsible for the development and the introduction of the 'Guide to business conduct', he was unable to ensure that appropriate implementation strategies would be established in support of the guide. Rather, the technocrats, the human resources section and training specialists, made the decisions as to how the work of others would be affected, clearly consistent with mechanistic structure. This appears to be consistent with Child (1986); Hodge, Anthony, and Gales (2003); Narayanan, and Nath (1993) and Robbins (1990) who argue that dominant coalitions exercise power within organisations affecting the structure of an organisation or its policies, so that it deviates from appropriate structural outcomes.

6.5.1 Formalisation and Cultural Control

As identified in the literature review, cultural mechanisms can be substituted for written rules and regulations (Child, 1986; Daft, 2001 and Hatch, 1997) A strong and cohesive organisational culture can be developed through appropriate policies such as staff selection, socialisation, ongoing communication and reinforcement strategies (Schein 1997). These strategies were not put into place in support the guide. Nor has BHP utilised performance management and remuneration systems to reinforce appropriate ethical conduct. However, communication about the importance of the guide from senior managers such as the then CEO, Paul Anderson, demonstrates commitment through public statements and encouraging managers to discuss sensitive issues—strategies previously identified as part of a broad cultural change strategy. This is consistent with the role of the leader in the development of ethical culture as noted by Drummond and Bain (1994) Schein (1997); Sims and Brinkmann (2002); Trevino and Nelson (1995, 1999) and Scott (1998).

As evidenced by focus group findings, this had some degree of success. All members of the focus group were aware of the guide, suggesting that there was a greater willingness to discuss ethical issues within BHP than in previous years. Anderson's commitment to the BHP charter and his acting as a role model were identified by members of the focus group as significant influences in their view of the guides' usefulness and, in turn, their commitment. This is in contrast to the lack of formal strategies used by BHP in order to change culture, yet cultural change seems to be occurring. This is somewhat inconsistent with mechanistic structures where culture tends to have the same bureaucratic characteristics and where behaviour is learned through rules and regulations and formal strategies.

6.6 Effective Leadership

Several leaders can be identified as making a significant contribution in the development of the 'Guide to business conduct'. The former CEO Prescott, CEO Paul Anderson, and the country managers who created the impetus for the guide are clear executive level leaders.

According to the manager EB&PP the initial development of the guide was under the direction of the former CEO Prescott. It is his view that whilst Prescott believed in the importance of such a document, he was not fully committed to the process. The manager EB&PP identified that Prescott did not support additional measures to increase awareness of the guide, such as communication strategies and motivational techniques through remuneration. Prescott's view was that, as BHP policy, employees should automatically comply with the guide. Both the manager EB&PP and members of the focus group clearly identified Paul Anderson's appointment as CEO, as a major factor in the guide's development and acceptance. The manager EB&PP suggests that, as an American, Anderson was familiar with codes of ethics and codes of conduct, and therefore understood these systems and the need for a more holistic approach. It was Anderson who advanced the development of the BHP charter as a critical set of values to underpin the 'Guide to global business'.

This is consistent with Whetsone (2001); Petrick and Quinn (1997) and Hoffman (1995) who stress that effective ethical leadership must not only ensure that adequate resources are provided, but leaders must also play critical functions as role models.

Senior executive support for the ethical process is vital in determining the level of effectiveness of the programme. Dunphy and Stace (1991) argue that executive leaders also want to be seen to have championed and achieved significant change during their tenure. This is consistent with motivation theories, such as Maslow's hierarchy of needs and Alderfer's path goal instrumentality theory that identify egoistic drives such as affiliation and self-actualisation as major factors in determining behaviour of senior executives (McKenna 1999).

6.6.1 Delegation

The manager EB&PP can be seen to have been a driving force in the development of the 'Guide to business conduct'. Importantly, he scanned the environment in order to gain information about existing Australian research and expertise in the field of ethics that led him to Simon Longstaff and the St James Ethics Centre. He further brought in expertise and information via consultant Ron Miller who attended ethics conferences in the US. This can be seen to be a positive move on part of the organisation and a proactive strategy to ensure adequate knowledge concerning appropriate methods for developing ethics. As identified by the manager EB&PP, instrumental in the development of the guide was the role assumed by Simon Longstaff and the St James Ethics Centre, providing advice on content, structure and reporting mechanisms, in particular the importance of the helpline.

6.7 Formalisation and Cultural Control

Child (1986) identifies that cultural mechanisms, as a means of controlling or directing behaviour, can be highly successful as a substitute for written rules and regulations, however, this does not mean that cultural mechanisms are purely non-formal. He identifies that in order to build a strong culture, the organisation must address critical policies in the areas of staff selection, socialisation and on-going communication and reinforcement of the desired behaviour through organisational processes that are accepted by organisational members. This suggests an effective strategy would be to embed the guide into already accepted processes within BHP, such as staff promotion policies, work plans and training and development. As previously identified, this appears not to have occurred at BHP, with the guide being a separate policy.

6.8 Conclusions of BHP's Global Conduct System

The global conduct system introduced by BHP was partially consistent with the diversified organisation in that it attempted to provide a broad statement of values, to identify specific behaviours that were crucial to the organisation, and also provide reporting systems. However, the strategies did not provide sufficient flexibility for the divisions to implement policies appropriate to their different environments, argued by Mintzberg (1998) as necessary for diversified organisations to be in fit with their multiple environments.

6.8.1 Major Strengths of the Approach

The initial approach taken by BHP of researching strategies, compliance programmes in the United States and the utilisation of the St James Ethics Centre was a positive approach that provided a strong basis for the development of global conduct system. This ensured that the BHP global conduct system was based on proven ethical strategies.

6.8.2 Effective Awareness and Participation

The strategies adopted by the global conduct of devising draft documents, circulating them to employees and organising feedback through individual and focus groups, was an important step in gaining acceptance from employees. In addition, the involvement of the executive level, in particular former CEO Prescott and current CEO Paul Anderson, ensured executive level support that has been argued in this thesis as a mandatory requirement for effective implementation of ethical systems.

6.8.3 Effective Leadership and Delegation

As with the previous case studies in this thesis, the role of particular individuals as champions of the fledgling ethical system was critical. In particular BHP's manager environment business and public policy played a key role, assuming the task of coordinating research, identifying and bringing together disparate BHP policies, drafting the guide and ensuring information was kept flowing to key stakeholders.

6.8.4 Structural Consistency

BHP Pty Ltd was shown to be a diversified organisation that had also made a conscious decision to pursue a strategy of developing an ethical culture initiated by a group of country managers seeking to address the ethical dilemmas confronted in the different countries in which BHP operated. The strategic apex, headquarters of BHP, established a guide to business conduct and disseminated it to its divisions, consistent with the diversified organisation where the strategic apex issues policies to standardise the autonomous divisions. However it has been previously identified that these were established as rules of compliance rather than policies and guidelines. Mintzberg (1998) does suggest that the strategic apex in diversified organisation does try to exert greater control over divisions through formalisation, as a means of re-centralising the organisation. This became the basis for the organisation's ethical document the "Guide to business conduct" which provided a set of behavioural guidelines to all employees consistent with a code of conduct. External consultants, recognised ethics experts, were brought in to assist with raising ethics awareness with senior executives and to advise on an appropriate approach for the organisations. The responsibility for the creation of the ethics system was delegated to a senior position within the organisation that already had responsibility for public policy.

6.8.5 Reporting System

A major strength of the global conduct system was the establishment of the helpline as a means by which individuals facing an ethical dilemma could receive counselling or anonymously report breaches. This chapter has demonstrated that without such systems employees are less likely to report violations or seek assistance. The "Guide to business conduct" was developed by BHP headquarters and disseminated throughout the organisation and included examples and cases for employees to consider, a resolution strategy and details of 24 hour hotline enabling employees to report violations or issues of concern. A global conduct forum, a committee made up of senior managers and independent members, was also established to oversee the conduct system and to ensure ongoing evaluation. Support mechanisms identified included focus groups to promote discourse, the dissemination of the code to employees and internal websites which employees could access. The organisation had essentially designed a compliance system, however, evidence was presented that not

all employees received copies of the document and this diminished the effectiveness of the communication strategy.

6.9.0 Major Weaknesses

While the global conduct system seems to have a degree of fit with the mechanistic structure of BHP, various aspects have been identified which can be seen as inappropriate or served to undermine the systems effectiveness

6.9.1 Narrowness of Research

The reliance on compliance models in addition to the narrowness of BHP's research is argued as a disadvantage in that more flexible approaches that better met the needs of the divisions could have been considered. Greater research into support mechanisms may also have been identified and used to gain support from key internal stakeholders such as human resources.

6.9.2 Lack of Training and Development

The literature review clearly identified ethics training as a necessary part of an ethics system. A possible explanation related to political action on the part of Human Resource personnel was put forward. Responsibility for ethics is usually delegated to human resource departments; however, in BHP's case responsibility was delegated to another department. This may have resulted in a lack of commitment and willingness to support the ethics system from the human resources department. The absence of any training and development for the 'Guide to business conduct' suggests that while employees are aware of the document, they are not necessarily knowledgeable in its use. This was certainly supported by focus group findings. If an objective of the global conduct system was to change behaviour, it is difficult to see how it can change without new knowledge and skills being acquired. Another critical issue was the lack of training and development for members of the global forum. The function of this group was to oversee the global conduct system and to make necessary recommendations concerning changes or reviews. Without this critical knowledge it is difficult to see how the global forum could make an informed decisions concerning the guide. The reliance on seniority and the influence of Longstaff in raising ethical

awareness and knowledge of global forum members does not guarantee informed decision making by the forum.

6.9.3 Lack of Ongoing Data

A stated aim of the global conduct system was to measure employee's usage of the guide and a helpline so that the global forum could analyse and act on this information. This chapter has demonstrated that such data was not collected or presented to the forum, during the research period. It is difficult to see how the global forum could meet the objective of reviewing the appropriateness of the guide to business conduct without this critical data.

6.9.4 Difficult Financial Position

It has been made clear in several parts of this chapter that the global conduct system was designed and implemented at a time of great financial hardship for BHP. Massive downsizing occurred between 1997 and 2000 with the total workforce being reduced by almost fifty per cent. The manager EB&PP and the global conduct manager both confirmed that the budget for the global conduct system was also cut and that intended strategies for ongoing communication and expanded support could not have been introduced due to these financial constraints.

6.10 Concluding Statement

Clearly the role of Paul Anderson as CEO and his emphasis on the charter and values made a significant impact on the organisation. This reinforces the importance of ethical leadership in the development of any ethics process. The organisation has been successful in creating a level of awareness and a commitment amongst its employees to the concept of the global conduct system; however, the lack of ongoing support and the operation of the policy have adversely affected the level of effectiveness.

A participatory approach was seen as a means of raising awareness and building commitment from employees. Documented focus group responses identified this as a major factor in building respect for and commitment to the Global Conduct system.

As a diversified organisation with BHP's divisions, displaying characteristics of mechanistic structures, the ethical system designed by headquarters and disseminated to these divisions, initially appeared consistent with the diversified configuration model. However, it was shown that the role of headquarters is to provide policies and guidelines to be adopted and modified by divisions according to local needs. BHP's "Guide to business conduct" was distributed to all divisions without modification. This was argued to be inconsistent with the diversified organisation. In effect the document, whilst arguably appropriate for some parts of the organisation, lacked the flexibility that diversified organisations require. Essentially BHP headquarters approached the task viewing the organisation as a machine rather than a diversified one. It is unclear as to whether this is due to a lack of understanding of organisational structure issues on the part of those responsible for the Global Conduct System.

It was concluded that BHP's approach to designing an ethical system was generally consistent with the business ethics literature that advocates a compliance approach for mechanistic structures. Its use of participation and an albeit limited communication strategy was also seen as consistent. However, the diversified organisation has a number of mechanistic divisions each with a different environmental context. This would suggest greater flexibility was required in the global conduct system and therefore the approach was determined as only partially in fit with BHP structure and thus not as effective.

Chapter 7

Conclusion, Cross Case Comparison and Further Research

7.0 Introduction

This thesis sought to establish the relationship between organisational structure and the policies, procedures and strategies used to create and maintain an ethical culture within large organisations. A central tenet of the thesis rested on Mintzberg's hypothesis of the need to design the internal components of an organisation, as represented by rules, policies, procedures and the choices of control and integration mechanisms, so as to be consistent with the context in which the organisation finds itself, most typically, the external environment. This thesis proposed that both business ethics and organisational theory literature do not provide sufficient guidance to managers as to how to design an ethical system that is in fit with the organisation. In order to explore the concept of the fit between ethics approaches and organisational structure, three large Australian organisations were examined using a case study method. Chapters 4, 5 and 6 outlined each organisation's ethical framework contrasting these strategies with each organisation structure so as to determine the level of fit.

This chapter draws conclusions regarding the business ethics and organisational theory literature currently available, establishes cross case comparisons and identifies further research questions raised by this thesis.

7.1 Conclusions from Chapter 1

Chapter 1 identified the basis for the research in addition to the case study approach as an appropriate research method for this thesis. Several critical aspects were identified in this introductory chapter. Firstly the concept of an organisation was defined and described using accepted organisational theorists such as Robbins, Daft, Robey and Sales and Mintzberg. This definition clearly established that an organisation is a consciously coordinated entity and that decisions are taken by an organisation in a rational manner. This demonstrated that organisations have stated or multiple goals supporting the notion that organisations have purpose, thus establishing organisations as having a moral dimension. In addition it served to identify the first of a series of relationships between organisational theory and ethics literature: the notion that the organisation, as defined in organisational theory literature, has consciousness and purpose, identified in Chapter 3 as arguments in favour of considering organisations as

moral persons. Secondly, organisations were shown to have a structure comprising of three basic variables of formalisation, centralisation and complexity. It was shown that formalisation represents the extent of rules, policies and procedures within an organisation. A direct relationship was established between the concept of formalisation, as a measure of organisational structure, and the most common strategies used to encourage ethical behaviour in an organisation, that is codes of ethics or codes of conduct. These were proven to be forms of formalisation. Centralisation was identified as the extent to which power or decision-making was held with the senior executives, or conversely, decentralised throughout the organisation. An important link was established between the level of discretion afforded to individuals to make decisions that may have an ethical component and the concept of centralisation. The final issue of complexity was discussed in terms of both vertical and horizontal differentiation. This issue was identified as an important structural concept used in ethics literature that identifies the same internal decision-making systems and structural restraint arguments as a basis for assigning moral responsibility to organisations.

The introductory chapter identified the business ethics and organisational theory concepts to be used explored in later chapters. Paine's compliance and integrity typology was introduced as a means of categorising the different approaches to developing an ethical system within an organisation. This was justified by identifying similar categorisations that polarised the majority of business ethics literature, regarding creating organisational ethical systems, as either an approach based on strict enforcement of rules, referred to as the compliance approach, or a framework that relied on guiding principles and the use of discretionary systems known as the integrity or aspirational approach.

Understanding organisational theory and the classification of structure were identified as a necessary step in analysing whether the policies and procedures used to create an ethical system are consistent with the organisation's structure. The approach outlined by Henry Mintzberg, referred to as the configuration approach, was outlined in detail and justified on the basis that it used traditional approaches to organisational theory, but presented the information in a way that differentiated organisational structures on the basis of the extent of formalisation, complexity, and centralisation, according to which part, or groups of individuals, were able to exert the most influence in key

decisions relating to organisational structure. This was shown to be a critical factor in the determination of whether an ethics system would be developed and who would have responsibility for its establishment.

The research methodology for the thesis was identified as the case study method. This was shown to be a qualitative approach that utilises discursive methods such as interviews and focus groups as the primary method of data gathering. Various sources including Yin, Sarantakos, and Anderson, Dursten and Poole were cited in support of this method as the most appropriate for the analysis of the three organisations featured in the case study chapters.

7.2 Conclusions from the Literature Review

Chapter 2 identified that the majority of business ethics literature concerned with establishing an ethical culture within an organisation seems to be polarised between those that advocate the use of extensive rules and regulations as a means of enforcing compliance with declared ethical standards, versus those approaches that advocate the use of ethical principles as a means of guiding behaviour. Paine's typology of compliance versus integrity was used as the basis for classifying the majority of the literature. The chapter then outlined the characteristics common to both approaches including: a general agreement that organisational ethics needs to have a strategic focus, that a written policy for ethics needed to be established, in a participatory manner, so as to build commitment from organisational members. The written policies of codes of ethics and codes of conduct were shown to be examples of formalisation, a structural variable. Strategies for enculturating the ethical standards throughout the organisation were identified as including: appropriate communication, socialisation, including training and development, structural changes including the creation of functional groups or functional positions responsible for the administration of the ethics system and, lastly, an extensive discussion was presented identifying the range of approaches for evaluation, commonly referred to as ethics audits or social responsibility audits. A critical finding was the limited literature that documents evidence as to the effectiveness of organisational approaches to ethics.

Chapter 3 clearly demonstrated a direct relationship between business ethics and organisational theory literature. The arguments put forward for holding organisations

morally responsible, including the moral person view, agency theory and concepts of structural restraint, were shown to be concepts and models from organisational theory. Codes of ethics and conduct were proven to be examples of formalisation, which seek to control appropriate employee behaviour. Weber's original bureaucratic concept was shown as method of maintaining ethical standards through the use of rules and regulations, clearly in defined accountability systems and appropriate reward systems. A range of bureaucratic structures was shown to exist highlighting that business ethics literature does not provide guidance as to the specific organisational ethics system that would be most appropriate for differing structures.

7.3 Case Study Conclusions.

The first case analysed, The Body Shop Australia, was classified as primarily a machine organisation, but with significant characteristics of the missionary form, which emphasises organisational culture as a means of ensuring consistent behaviour. The organisation developed a range of policies that employees referred to as principles and charters. These were identified as a formalised approach to creating an ethical system consistent with the compliance approach. The Body Shop's culture was found to be extremely cohesive reinforcing the charters as the bases for decision-making. The role of the managing director was found to be of critical significance not only in establishing the ethical system, but also through role modelling reinforcing the organisation's standards through visible commitment. The Body Shop Australia's training and development, along with reward programmes, were the critical factors in the maintenance of the ethical system through cultural reinforcement. The Body Shop Australia used an ethics strategy that was deemed to be in fit with its predominantly mechanistic structure.

The second case analysed, the RMIT University, was classified as a professional bureaucracy with elements of the machine configuration. The organisational leader, the University's Vice Chancellor, was seen to be critical to the ethics strategy initiating the process and ensuring resources were provided. The University pursued a participatory approach to developing the ethical system, initially through a major conference open to all employees that was facilitated by external consultants. From this conference an ethics developmental process emerged that resulted in a written ethics policy based on a statements and principles consistent with the aspirational

approach. The University's communication strategy included distribution of the code to all employees, statements foreshadowing the incorporation of the ethical principles in all University policies and procedures and a commitment to an ethics policy review. It also established an intranet web site detailing the code, decision-making trees and case studies of typical university dilemmas. Training also occurred in support, however, it was limited to the period immediately following the code introduction and the training audience was predominantly from the administrative and support areas. Political activity was identified as interfering with further implementation; as a consequence no support mechanisms such as reporting lines, were established, ethical awareness declined and cynicism increased. The University's ethics strategy was deemed as initially sound and consistent with the professional nature of the organisation, however, it was incomplete failing to provide guidance for the more structured and formalised organisational areas. The lack of support mechanisms, changes to the organisational structure, alignment of policies, procedures and the review of the system were shown to have undermined the strategy raising ethical cynicism and rendering the ethics strategy ineffective.

The third case analysed, BHP Pty Ltd, was identified as a diversified organisation having developed a guide to business conduct which was shown to be a compliance based code of conduct applying to all employees. BHP Head-office using a participatory approach developed this. Whilst the development was seen as consistent with the role of the strategic apex, the prescriptive nature of the code was deemed inconsistent with the diversified organisational form. Supportive cultural change was identified as a result of role modelling from the organisational leader. Communication strategies were identified as incomplete and little training supported the guide, although a hotline was identified as a significant support structure. As a diversified organisation with its divisions displaying characteristics of mechanistic structures, the ethical system initially appeared consistent with the diversified configuration model. The "Guide to business conduct" was distributed to all divisions without modification. This was argued to be inconsistent with the diversified organisation thus reducing the effectiveness of the ethical system.

7.4 Cross Case Conclusions

Each of the three organisations made conscious attempt to introduce an ethical system, which involved the creation of new policies, organisational positions and support systems. As was demonstrated earlier in the thesis, these constitute examples of formalisation, complexity and centralisation which are structural variables. The fact that the organisations made these decisions consciously is consistent, not only with the definition of organisational design, but also with the arguments of memory and consciousness, considered necessary for moral accountability and responsibility. Thus the relationship between organisational structure and moral literature is again established.

The decision to introduce an ethical system can also be seen to be consistent with the concept of organisational strategy. DeWit and Meyer (1999) identify that strategy is composed of three different aspects: the strategy process, the manner in which the strategies comes into being, the strategy content or the actual substance and, finally, the strategy context, which is the conditions under which the strategy is determined. In all three cases the involvement of the senior executive was seen as crucial to creation and establishment of the ethics system. Mintzberg (1998) identifies senior executives or strategy apex as being responsible for the creation of strategy. However, Porter (2005) maintains that the role of a CEO is not necessarily that of strategy creation, rather it is to provide the discipline and the means by which the strategic position can be developed and maintained over time. It is this observation that has relevance to the three organisations featured in this these. In each case, the senior executive was instrumental in establishing the context in which the ethics strategy was to succeed or fail. It was demonstrated that a complementary role of the senior executives is to role model behaviour as a cultural and communication strategy.

The case study conclusions demonstrated that in the Body Shop and BHP organisations, the CEOs were fundamental in strategy development, resourcing and cultural role modelling. All three cases highlighted the importance of the senior executives of the organisation as having two critical roles. Firstly, leaders of organisations are in a position of authority to direct and champion the cause of ethics, insuring that the strategy is adequately resourced and delegated to individuals and groups within the organisation that can carry the strategy forward. Secondly, the

importance of role modelling was evident in cases 1 and 3, where the senior executive was visible in supporting the ethics system and the declared standards. This was recognised by both sets of employees and seen as a method of reinforcing commitment and thus assisting in the establishment of a cohesive ethical culture. By contrast, the perceived lack of visibility and appropriate role modelling by senior executives in case 2 was shown to undermine the ethics effort and increased the level of cynicism amongst employees as measured through evaluation and climate surveys. These findings support the literature review concerning the role of leadership as a critical factor in the establishment and maintenance of organisational culture.

This is consistent with deWit and Mayer's (1999) description of strategy formation and implementation. This was shown to have been a key factor in the ultimate level of effectiveness of the ethics strategy for both case studies 1 and 3. By contrast, in case study 2, the RMIT University, the role of the Vice Chancellor was one of limited delegation. By not engaging with the process, both in terms of role modelling and ensuring implementation was holistic, the ethics system at RMIT was incomplete and lacked the structural support evident in the other two cases. This lack of direct engagement may also explain the decision not to forward the Ethics Implementation Committee final report and recommendations to the out-going Vice Chancellor believing the Vice Chancellor designate would be more supportive of its findings.

The impact of the executives emphasises Newton's (1995) three principles of ethics strategy and ineffective outcome. The case of the Body Shop and BHP demonstrate the importance of the principle of validity, being that the ethical system is supported via the public behaviour of its senior officers. Employees, other constituents, stakeholders and customers must believe that the organisation is committed to its values and ethical standards. The RMIT case demonstrated clearly that perception that this is not the case adversely impacts not just on employee behaviour, but also on other executives through their decision to withhold information.

The second of Newton's (1995) three principles, that of participation in the design and implementation of the ethics system, was evident in all three cases. The opportunity to participate in the process should generate greater commitment to the decision due a sense of ownership and commitment. Whilst McEwan (2001) suggests that the opportunity to participate strengthens the likelihood of a successful programme, it is

clear from the three cases that this does not guarantee success. Arguably, the RMIT University had the most direct form of participation through the ‘Exploring a code of ethics for RMIT’ internal conference and follow-up workshops, which had several hundred employees in attendance. Yet subsequent surveys found that ethical cynicism had emerged. Focus group findings from the University emphasised this point and a belief that the senior executives were not committed to the process. This reinforces the principle of validity discussed in the previous paragraph and indicates the importance of the point made by Porter (2005) that the environment for ongoing commitment falls within the responsibility of the senior executives. A clear distinguishing factor between the two more successful cases of The Body Shop and BHP was the demonstrated commitment of senior executives, which reinforces the perception of employees that not only were the values real, but that their participation was expected and valued as part of the process.

All three organisations were successful in establishing written policies detailing ethical standards. This is consistent with many of the recommendations canvassed in the literature review that such policies are a necessary and critical step in any ethical system. However, as noted by Harvey and Brown (2001) the creation of policy is relatively easy, the changing of behaviour is another matter. Policies need to be implemented in a meaningful way, which means accepted by the organisational members and enabled through support mechanisms.

A clear distinction exists between the RMIT University and the other two organisations. Existence of the world-wide Hotline at BHP, the Global Forum as a senior committee with responsibility for overseeing the global conduct system, and application of the conduct system with respect to employee performance, as evidenced by focus group member comments, emphasised that the organisation provided avenues for employees to act on ethical concerns and that these would be addressed at the highest level through the Global Forum. Similarly, the Body Shop had a formal position, that of stakeholder development manager, who had a major responsibility in the design process which included the participation strategy. At the time of completing the research for this thesis, no formal reporting mechanisms were in place at The Body Shop; however, these were canvassed in the draft code document referred to in the case study chapter. In addition, focus group members emphasised the informal networks of the organisation and the willingness of staff to address matters of ethical

principle by referring to the various charters, and to discuss matters of ethical sensitivity with senior executives including the managing director. This suggests that support mechanisms were, in effect, in place through the Body Shops decision-making framework and that more distinct ethical reporting systems were also being considered.

The RMIT University did develop limited support mechanisms, most notably the website which did contain case study and decision-making tools. However a distinct difference between the RMIT mechanisms and those of the other two organisations is the absence of information about what to do when confronted with an unresolved ethical dilemma. The University chose not to develop a separate reporting mechanism. Moreover, the objective of integrating the ethical principles throughout the organisation's policies appeared not to have been followed through. Thus, unlike the other two cases, there was no mechanism for employees to address or to bring attention to ethical issues or matters of sensitivity.

All three cases highlighted a conscious decision on the part of the organisations to design a system that promoted ethical behaviour amongst their respective employees. This supports the argument that organisations are consciously co-ordinated entities with the ability to make decisions that affect their structure, constituting a form of memory and therefore organisations should be considered as having a moral dimension.

All three cases utilised external expert consultants in the initial stages as a means of raising awareness and providing advice as to the type of ethics system that needed to be developed. Whilst this is seen as a positive measure, a consequence appears to be an acceptance of the advice as appropriate for that organisation, without further detailed investigation. Only one of the three cases examined, The Body Shop Australia, undertook an extensive evaluation prior to the development of an ethics code. All three cases were shown not to have undertaken an examination of structural perspectives prior to devising an ethics strategy. A possible explanation for this was put forward in the literature review, stemming from the lack of congruence between organisational theory and business ethics literature. It is possible that the expert advice provided to all three organisations was based primarily on business ethics literature and therefore failed to take account of the particular needs of each organisation's

structure. This conclusion can be supported by the fact that in all three cases the ethics systems were not in full fit with the organisational structure; however, the system most in fit, that identified in case study 1 The Body Shop Australia, was deemed to be the most effective.

There was a consistency in the communication strategies employed by each organisation with clear attempts to disseminate written ethical policies to all employees. Supportive communication strategies, in particular the use of websites, were also found in all three cases. However, it was identified that without ongoing commitment to maintain these communications strategies, employee perception of the importance of ethical standards diminishes. This was clearly evidenced in case-study 2, The RMIT University which failed to communicate any issues related to ethics following the initial introduction of the ethical system, and similarly in case 3 BHP, which was unable to fully distribute its written policies on ethics, “Guide to business conduct”, to all employees. Ongoing communication was identified in the literature review as a requirement of effective ethical systems. The case analysis demonstrates that the lack of ongoing communication jeopardises the ethics message. Similarly, ongoing training and reinforcement is also seen as critical. The Body Shop case clearly showed that creating a culture that encourages ethical discourse and rewarding appropriate behaviour serves to reinforce and strengthen ethical culture. In cases 2 and 3, inconsistent and non-existent training, jeopardised the effectiveness of the ethics strategy.

Each organisation made attempts to support the ethical policies through changes to their organisational structure. In all three cases a functional position was designated as having responsibility for leading the ethics process. However significant differences emerge across the three cases with respect to the level of structural changes that were introduced as a means of supporting the ethical systems. Case 1 The Body Shop Australia had a clearly defined reporting system, not only to the designated manager in charge of the ethical system, but also directly through to the CEO. In addition The Body Shop’s policies and procedures were guided by its principles, identified as value statements, and its charters were in effect codes of conduct, already consistent with its mechanistic nature. The formalised processes of focus groups addressing ethical issues can also be seen as integration mechanisms consistent with the literature discussed Chapter 3. The rewards system were used to reinforce the organisation’s values

consistent with bureaucratic and clan culture models, identified in Chapter 3, reinforcing compliance with rules and regulations. Similarly, Case 3 established reporting mechanisms on a worldwide basis via a hotline, in addition to having a senior functional group, the Global Forum, with overall responsibility for the global conduct system. These structural changes are consistent with the recommendations identified in Chapter 2 and 3, advocated by theorists such as Hoffman, Frederick, Farrell and Fraedrich, as a means of enabling ethics. By contrast case 2, the RMIT University, saw no structural support mechanisms, nor were any reinforcement strategies introduced. This effectively meant that RMIT University employees with ethical dilemmas or major concerns had no formal system to use to address or raise these issues internally. The RMIT University case was found to be consistent with the literature that identified that most organisations fail to change their organisation structure thus undermining the efforts to develop ethical behaviour. The evidence, in this case from focus groups, was shown to be consistent with this finding.

Perhaps the most significant conclusions that can be drawn from the comparison is that an ongoing commitment from the organisation is required in order to ensure the effectiveness of the ethical system. Case 1, The Body Shop Australia and to a lesser extent Case 3 BHP, clearly demonstrated that the process of designing and implementing an ethical system cannot stop with the dissemination of a written policy but rather needs to be continuously reinforced with appropriate leadership role modelling and through effective communication channels. Case 2 the RMIT University shows that even though the design and implementation may have merit, without ongoing communication and evaluation to determine effectiveness, ethics as an organisational issue becomes devalued.

7.5 Guidelines for Developing Integrity Systems

Connock and Johns (1995), Ferrell, Fraedrich and Ferrell (2002), Paine (1994) and Trevino and Nelson (1995) note that leadership, structure, selection systems, orientation, training and development programs, rules, policies, reward systems and decision-making processes all contribute to the creation and maintenance of an organisation's culture which either encourages or discourages integrity. Hoffman (1996) and Mintzberg (1998) suggest such systems emerge, not by chance, but by a strategic approach through leadership, participation, the development of appropriate

policies and systems, training and development, communication reinforcement and constant evaluation and disclosure.

This thesis has identified that the design of ethical systems must be in fit with the nature of the organisation's structure. As argued by Miles and Snow (1995) organisations that design strategies or structures that are inconsistent with their operating logic ensure an internally initiated misfit which can lead to organisational failure. This thesis has argued that without a strategic, consistent and tailored approach the overall effectiveness of such ethics strategies will be diminished. The following points are a series of guidelines synthesised from the literature and case studies evidenced in this thesis. They are not intended to be a blueprint for the design of an ethical system; rather, they provide an overview of the critical issues that need to be considered when assessing whether or not an organisation has the elements of a system that encourages an appropriate ethical organisational culture. It is an overview of the identified elements of systems that will assist directors and managers to determine how to create a system that suits their organisation.

7.5.1 Organisational Strategy and Leadership

Leaders of organisations need to accept that they provide guidance, not only through governance and supervision, but also by promulgating policies and undertaking actions that demonstrate commitment to the values and principles of their organisation. As Newton (1995) has pointed out, the behaviours and actions of organisational leaders will send a more powerful message regarding acceptable behaviours than any published policies. Connock and Johns (1995) also established the relationship between strategy and leadership and the need for leaders to delegate effectively. As with other organisational activities and strategies, responsibility for the maintenance of the ethics system needs to be clearly recognised as a senior executive function and conveyed to the organisation. Avenues need to be established which enable ongoing ethical dilemmas to be investigated and resolved. There are five primary responsibilities that leaders should recognise in the organisational ethical system.

a) Committing the organisation to ethics requires the allocation of resources on an ongoing basis to ensure a viable internal strategy.

- b) Leaders must delegate the task of design and implementation of the ethical system to appropriately knowledgeable staff.
- c) Leaders need to recognise their own behaviours set the tone of the ethics in the organisation. They must commit to the stated values of the organisation not only verbally but must demonstrate their commitment through action.
- d) Leaders must accept ultimate responsibility for the ethical culture of the organisation. This includes not only the chain of command requirement that all organisational decisions ultimately are the responsibility of the executive, but also through the establishment of an ethics committee that can oversee the ethical system, resolve ethical dilemmas and provide a forum for communication to external stakeholders.
- e) An ethics committee, task force or ethics office needs to be led by an executive staff member so as to provide the necessary “clout” to deal with problems. The appointment of an ethics officer is also seen as an important part of implementing a well-designed integrity framework.

7.5.2 Organisational Analysis and Audits.

Organisations often introduce ethical systems retrospectively, that is, they do not emerge as an evolution of organisation design, rather organisations typically introduce such systems as a result of a major corporate scandal or as a result of government or stock exchange requirements (Hoffman 1995). This means that the structure of the organisation already exists within a specific context. Consistent with the main contention of this thesis, the ethical system must be designed to fit the existing structure. Therefore, the organisation must clearly establish an understanding of its structure and how it functions. This is similar to the systems audits suggested by Harrison (2001), through an examination of organisational policies, procedures and accountability systems.

7.5.2.1 Structural analysis.

Organisations need to examine their structure from the perspective of complexity, centralisation and formalisation, internal control systems, spans of control, number of hierarchical levels. All need to be examined so that the organisation can accurately define its primary type. Irrespective of whether a traditional approach to organisation theory is used, or more contemporary approaches such as Mintzberg's configuration approach are used, the organisation needs to clearly articulate its structure type. This step must be completed before any ethics system design is undertaken, as the characteristics of structure will identify the nature and extent of any written ethics policies, such as codes of ethics or codes of conduct, the level of discretion afforded to individuals and the extent of the support systems required, such as reporting lines. Organisations must also accept that no structure is a pure theoretical structure. Whilst there are many organisations that seem to be machine bureaucracies, they will not be exactly true to type, thus the ethical system must reflect the level of complexity, centralisation and formalisation of that organisation. This highlights that the compliance and aspirational models are insufficient to cover the structural variations that exist.

7.5.2.2 Organisation Audits

As identified earlier in the thesis, ethics audits or social audits are a necessary step prior to the development of an ethics system. This is similar to Harrison's (2001) compliance and ethics culture audits with the focus being to understand the organisations current value set and the areas of sensitivity. The primary purpose of such analysis must be to identify the areas of ethical sensitivity so that the system can be tailored to address behaviours that may expose the organisation to risk. As noted by Francis (2000) and Vidaver-Cohen (1998) the understanding of the organisation's climate or culture is critical so as to inform the extent of behaviour change that needs to occur. Such audits are similar to a training needs analysis as identified by Laird (1985), Kroehnert (1990) and Rothwell and Kazanas (1990). Thus it can be argued that the analysis of organisation and culture informs the ethical design process and ensures greater fit.

7.5.3 The Ethics Policies – Policies and Code(s)

Organisations need to spell out not only the values to which they aspire, but also the principles and, in some cases, the rules that employees should follow, depending on the level of discretion individual employees have in making decisions. Integrity policies, be they values statements, codes of ethics or codes of conduct, need to be designed according to the needs of each organisation. The organisational analysis and ethics audits will establish the extent of the written policies required. As a general rule, all organisations require statements of ethical principles or values. These serve the purpose of clarifying organisational direction and goals. In certain organisations such as professional bureaucracies and missionary configurations, they may be the only written ethics policy required.

Codes of conduct need to be recognised as types of organisational formalisation designed to restrict individual behaviour by lowering discretion levels. Depending on the structural configuration, organisations may require combination of codes of ethics and codes of conduct, It is also likely that organisations may require multiple codes of conduct informed by a single code of ethics. This ensures greater likelihood of fit between the ethics policy and the organisation's structure, This was evidenced in the BHP case where a standard policy was applied across all divisions and geographic locations, inconsistent with the nature of the diversified organisation, leading to a reduction in the global conduct system's overall effectiveness.

5.3.4 Communicating Policy and Building Commitment

A communication strategy needs to be established that is informed by the organisational analysis. The structural analysis identifies communication patterns throughout the organisation, both in terms of vertical and horizontal differentiation. Daft (2003), Hatch (1997) and Mintzberg (1998) have suggested that informal communication systems do not necessarily follow the chain of command or the hierarchical structure of the organisation. Identification of these formal and informal channels provides insight as to the most effective methods for the dissemination of information concerning the ethical standards required of organisational members.

Irrespective of the type of integrity policies that are developed, a level of organisational commitment is more likely when those who are to be influenced by these systems are aware of their creation and can be involved in their development. The opportunity to participate in the creation of such policies has been identified as a key to commitment. The development of the ethical system can be accomplished using participatory means, both in the collection of data in the organisational analysis and audits process and in the actual design through the distribution of drafts of ethics policies. Numerous data collection methods such as questionnaires, focus groups and delphi-techniques can be used as the means by which employees can be involved in the design process. Organisations need to recognise that participation must be communicated. Employees need to know how to provide such information.

Once the organisation has developed appropriate guidelines and or codes of conduct, they need to be communicated on a regular basis in a manner that ensures all employees are aware of their existence and of their importance. Whilst leadership and role modelling play a key part in ongoing communication, effective development is regarded as necessary to encourage and maintain an effective integrity culture. The messages need to be continuously reinforced through publications, actions and websites, and in written policies and procedures relating to the expected behaviours and attitudes of all employees, irrespective of their position. Organisations need to recognise that without constant reinforcement of the ethics message, other organisational priorities will override, as was evidenced in the RMIT University case.

5.3.5 Developing Integrity Skills and Abilities

This thesis canvassed substantive literature concerning the need for ethics training. A key recommendation is that all employees should ideally be trained in ethics. Consistent with the role modelling function of leaders, employees also consider who is being trained as another message concerning the importance of ethics. The absence of senior managers in the training pool, as evidenced in the RMIT case, can lead to an increase in ethical cynicism.

The organisational and ethics audit is, again, critical in clarifying the scope of training needs. As organisations have characteristics of different structural forms, it is likely that several training designs will be required to meet the specific needs of the different

organisational parts. It is not possible to make a blanket statement as to what type of ethics training is required; rather, consistent with the hypothesis of organisation fit, the type of training will depend on the type of ethical system being introduced. As a general rule the more aspirational the ethical system the more in-depth the training required with a focus on moral reasoning skills and ethical decision making. This is because aspiration systems are associated with greater employee discretion levels, in other words fewer prescriptive rules and employees must have the necessary knowledge to analyse ethical dilemmas and ascertain the most appropriate method of resolution. The more compliance driven the ethical system, the more training should be aligned to assisting employees to understand policy and decision tools which, if followed, provide the ethical solution. As identified by Preston (1994), skilled trainers are necessary for the effective delivery of ethics training programs. However, recent studies have shown that ethics education in formal professional programs is limited. Organisations need to ensure that human resource management personnel are equipped to design effective ethics intervention programs.

5.3.6 Managing Policy Breaches and Feedback

This thesis has outlined various structural systems that need to be established in order to support the ethics policies and procedures. These have included reporting mechanisms such as ethics hotlines or ethics counselling services. Research has shown that whistleblowers make their concerns known in a public forum either after they have exhausted internal methods or in the belief that internal mechanisms will yield ineffective results. This can also be linked to the communication strategy in that staff awareness of such processes is essential. The establishment of an integrity office or ethics officer is considered by Hoffman (1995) as a significant organisation strategy in managing this difficult and sensitive process. Organisation need to be aware that the use of existing reporting structures through the chain of command is less effective than more direct and anonymous systems. Child (1986), Daft (2003) and Hatch (1997) are among many organisational theorists that have identified that the larger the organisation, the greater the number of hierarchical levels and the greater vertical differentiation leads to communication blockages.

5.3.7 Reinforcement of Appropriate Behaviours

All organisations reward employees for their efforts through salaries, promotions, access to learning and development and public recognition. Not only does the attainment of specific targets, budgets or economic goals need to be recognised, but also ‘how’ they are achieved. Theorists such as Alderferer, Hertzberg and Maslow have identified that basic rewards such as salary do not necessarily lead to superior and sustained performance. Rather egocentric rewards that address affiliative and self-actualisation needs of individuals are seen as more effective (Bartol et al. 1998). Organisations must ensure that effective, ethical conduct is rewarded through performance appraisals and that individuals who achieve other goals through unethical means are not rewarded. In addition, the publication of such breaches and successes are seen as a necessary reinforcement strategy. This latter approach addresses some of these higher order needs. As was evidenced in the Body Shop case, such strategies combined with effective policies and leadership modelling, are key factors in the development of a culture that supports the ethical system.

5.3.8 Evaluation, Reporting and Disclosure

Driscoll and Hoffman (1999), Harrison (2001), Lagan (2000) and Valance (1996) emphasise the importance of evaluation and disclosure. Whilst these authors link these two concepts, they are clearly not the same. Petrick and Quinn (1997) identify that an effective management control strategy clarifies goals, establishes methods for measure of performance, which in turn identify gaps between stated standards and actual behaviours. Harrison (1999) correctly argues that the audit process actually occurs at the start of the design process. Galpin (1997) suggests that effective strategy evaluation is a multi-step process. He identified that benchmarking against similar organisations is a useful performance measure; however, this needs to be done at various levels according to the detail of the strategy. This suggests that evaluation of an organisation’s ethics system needs to consider all from incidents of role modelling, cultural surveys to determine employee acceptance of values and ethical standards, number of reports through communication channels, training evaluations, website usage statistics and similar strategies.

As suggested by Hoffman (1995), this information needs to be disclosed to key stakeholders of the organisation. This serves several purposes. Not only does it reinforce the ethics strategy as a result of communication to internal stakeholders, but it also enables the organisation to check whether external stakeholders recognise the commitment of the organisation to ethical practice and performance. The relationship between greater levels of demonstrated ethics, levels of trust and improved organisational performance were discussed earlier in this thesis.

7.6 Further Research Questions

During the course of the data collection, analysis and the writing of this thesis, numerous issues arose that, in the view of the author, could serve as the basis for further research.

The literature review highlighted the importance of leadership within organisations from the perspective of establishing values, its significance in terms of organisational culture as well as ensuring resources for the ethics strategy: an issue further evidenced in this conclusion. In Chapter 3 the relationship between ethical climate and the studies of Lawrence Kohlberg were briefly discussed. He is also noted for his research into cognitive moral development, which seeks to explain the approaches to decision making of individuals, based in their ability to understanding the ethical complexities of a problem. During the interviews in all three cases, it became evident that the leader's level of understanding of an ethics and ethical decision-making appeared to influence their decisions with respect to the ethics strategy adopted by the organisation. A valid research question might be whether ethics should be seen as a required competency of executive leaders in the same way that functional knowledge such as strategy, marketing and finance are also seen as required competencies. This might suggest that a leader's understanding of, or their ability to identify, the ethical complexities faced by an organisation, may have direct impact on the type and extent of the ethical system that the leader is willing to support.

Another area that was highlighted in the literature review and case study analysis was that of who should be responsible for the creation and implementation of the ethics system. The role of ethics and professionalism is related to this issue. Professionals are deemed to be individuals who have acquired a degree of mastery in a particular

discipline and can therefore undertake tasks and responsibilities commensurate with their knowledge and ability. This is generally accepted as a requirement for people occupying positions in the fields of marketing, finance and accounting, engineering, management and other semi-quasi professions. However, each of the three cases clearly demonstrated that no such expertise in the field of ethics and in particular ethics and organisational structure was present. Whilst in Case 1, the manager responsible for the ethics system undertook a two week intensive course in social auditing, and in Case 2, the ethics project leader conducted research into ethics codes and in Case 3, the manager responsible had a public policy background, it is questionable as to whether this would constitute expert knowledge required of organisational ethics professionals. A possible research question would be to further investigate the level of knowledge and skills required of individuals who wish to be seen as a professional business ethicists with the knowledge and ability to devise ethical systems for different organisation structures.

This study primarily examined the approaches concerned with the development and implementation of an ethics system from a strategic organisational level. It did not seek to collect primary data from individuals at the operating level of organisations to establish whether the written policies and support mechanisms actually resulted in changed and sustained ethical behaviour. The literature review did identify several studies that sought to determine whether codes of ethics or codes of conduct resulted in more ethical behaviour. Further research needs to be undertaken using a holistic framework to establish whether the total ethics system, including policies, support mechanisms, changes to reward systems, training and development are effectively able to change and reinforce employees approaches to ethical decision making.

7.7 Thesis Conclusion

The purpose of this thesis was to examine how large bureaucratic organisations sought to establish ethics through formal mechanisms. The literature review identified that whilst a body of information exists concerning the characteristics of ethical systems, there is a lack of clarity as to the type of system that needs to be developed according to the different organisational structures that exist. Organisational theory was shown as directly related to business ethics literature in a variety of aspects including; formalisation, centralisation and accountability systems. However, these two

disciplines have not come together to provide a systematic and holistic approach that would inform organisations. As noted in the literature review, McDonald (1999) states that a major flaw in business ethics literature is the absence of practical and relevant strategies that can be adopted by businesses. The case study chapters demonstrated that the effectiveness of an ethical system is enhanced when it is designed to achieve greatest fit with the organisational structure. They also highlight that incomplete systems and the lack of ongoing attention to system maintenance undermines the effectiveness of ethical cultural development. It is the view of the author that this thesis has contributed to the literature by identifying the relationship between organisational theory and business ethics. It has sought to establish a framework that identifies the characteristics of ethical systems required for different bureaucratic structures. It has analysed three cases paralleling the structures and found that validity for hypothesis of fit as a means of enhancing ethical system effectiveness.

Appendix 1

Semi Structured Interview Questions for Focus Groups Sample from BHP Focus Group

The BHP Guide to Business Conduct*Creation of the Guide & Process*

Why was this developed? In response to what?

Who was the driving force behind its development?

Was there a team established to devise the guide? On what basis were members of the team selected?

How did they go about the task of researching the contents of the guide?

Did they review other codes?

Did they seek expert advice? If an external consultant was brought in? (Simon- what was his role-)

Was there any staff involvement (Across BHP) in the design of the guide?

When finally approved, how was the guide made available to staff?

Was there any support, eg through training? Was this considered?

The establishment of the Global Business Forum

Whose idea was this group?

Is the membership as set out in the guide?

Does it meet on a quarterly basis?

What training have members received regarding issues of ethics so as to meet the objectives of the Forum?

Has the forum viewed the guide? What has this process been?

Reporting and Evaluation

Businesses are required to submit quarterly reports on gift giving etc and annual reports of business conduct to the Global Forum?

Has this been done?

What happens to these reports?

BHP Group Audit and external auditors periodically evaluate the business unit's internal reporting procedures & systems> Is there a specific audit of the guide to business conduct. Who are the external auditors?

Dealing with a concern?

Has the Help line been established?

Is it used by staff?

What happens to the information?

Do staff refer matters to the Forum? Examples??

HR RELATED ISSUES

Violations are dealt with through existing procedures?
Can you cite examples?

Is it appropriate for issues of ethics to be dealt with through grievance and discipline?

Is the Guide seen as a separate policy? Is it intergrated into other BHP HR policies, if so how?

In revising existing policies, how are issues of conduct considered?

Training and Development

How are the issues of ethics addressed in BHP training? Is this a central policy or are the businesses left to determine their own training needs?

If the later, how does HQ ensure that a global policy, such as the Guide is

1. addressed
2. given appropriate support through training.

Is there any training that addressed specifically issues of ethics? Is this separate or built into other programmes on leadership, communication etc.?

What level of training is provided to managers across the business units on ethical decision making?

Are people who travel overseas, given cross cultural training regarding matters of ethics versus etiquette- ie bribery?

Are there specific training support for people in terms of using the guide?

Are there members of the HR Unit with expertise in the field of ethics, codes, etc? if not how does BHP ensure that it is getting the right information on such topics?

What level of training is provided to members of the Forum on ethics?

Appendix 2

US Sentencing Guidelines

An Overview of the UNITED STATES SENTENCING COMMISSION AND THE ORGANIZATIONAL GUIDELINES



The United States Sentencing Commission is an independent agency in the judicial branch of government. Its principal purposes are: (1) to establish sentencing policies and practices for the federal courts, including guidelines prescribing the appropriate form and severity of punishment for offenders convicted of federal crimes; (2) to advise and assist Congress and the executive branch in the development of effective and efficient crime policy; and (3) to collect, analyze, research, and distribute a broad array of information on federal crime and sentencing issues, serving as an information resource for Congress, the executive branch, the courts, criminal justice practitioners, the academic community, and the public.

The U.S. Sentencing Commission was created by the Sentencing Reform Act provisions of the Comprehensive Crime Control Act of 1984. Unlike many special purpose "study" commissions within the executive branch, Congress established the U.S. Sentencing Commission as an ongoing, independent agency within the judicial branch. The seven voting members on the Commission are appointed by the President and confirmed by the Senate, and serve six-year terms. At least three of the commissioners must be federal judges and no more than four may belong to the same political party. The Attorney General is an *ex officio* member of the Commission, as is the Chairman of the U.S. Parole Commission.

The Commission is charged with the ongoing responsibilities of evaluating the effects of the sentencing guidelines on the criminal justice system, recommending to Congress appropriate modifications of substantive criminal law and sentencing procedures, and establishing a research and development program on sentencing issues.

A Brief History of Federal Sentencing Guidelines

Disparity in sentencing, certainty of punishment, and crime control have long been issues of interest for Congress, the criminal justice community, and the public. Before guidelines were developed, judges could give a defendant a sentence that ranged anywhere from probation to the maximum penalty for the offense. After more than a decade of research and debate, Congress decided that: (1) the previously unfettered sentencing discretion accorded federal trial judges needed to be structured; (2) the administration of punishment needed to be more certain; and (3) specific offenders (e.g., white collar and violent, repeat offenders) needed to be targeted for more serious penalties. Consequently, Congress created a permanent commission charged with formulating national sentencing guidelines to define the parameters for federal trial judges to follow in their sentencing decisions.

The Commission has the authority to submit guideline amendments each year to Congress between the beginning of a regular congressional session and May 1. Such amendments automatically take effect 180 days after submission unless a law is enacted to the contrary.

Innovations under the Guidelines System

- Structured judicial discretion
- Appellate review of sentences
- Reasons for sentence stated on the record
- Determinate or "real time" sentencing
- Abolition of parole

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An Overview of the Organizational Guidelines

by: Paula Desio, Deputy General Counsel
 United States Sentencing Commission

Organizations, like individuals, can be found guilty of criminal conduct, and the measure of their punishment for felonies and Class A misdemeanors is governed by Chapter Eight of the sentencing guidelines. While organizations cannot be imprisoned, they can be fined, sentenced to probation for up to five years, ordered to make restitution and issue public notices of conviction to their victim and exposed to applicable forfeiture statutes. Data collected by the Sentencing Commission reflect that organizations are sentenced for a wide range of crimes. The most commonly occurring offenses (in order of decreasing frequency) are fraud, environmental waste discharge, tax offenses, antitrust offenses, and food and drug violations.

The organizational sentencing guidelines (which apply to corporations, partnerships, labor unions, pension funds, trusts, non-profit entities, and governmental units) became effective November 1, 1991, after several years of public hearings and analyses. These guidelines are designed to further two key purposes of sentencing: "just punishment" and "deterrence." Under the "just punishment" model, the punishment corresponds to the degree of blameworthiness of the offender, while under the "deterrence" model, incentives are offered for organizations to detect and prevent crime.

Effective Compliance Programs

Criminal liability can attach to an organization whenever an employee of the organization commits an act within the apparent scope of his or her employment, even if the employee acted directly contrary to company policy and instructions. An entire organization, despite its best efforts to prevent wrongdoing in its ranks, can still be held criminally liable for any of its employees' illegal actions. Consequently, when the Commission promulgated the organizational guidelines, it attempted to alleviate the harshest aspects of this institutional vulnerability by incorporating into the

sentencing structure the preventive and deterrent aspects of systematic compliance programs. The Commission did this by mitigating the potential fine range - in some cases up to 95 percent - if an organization can demonstrate that it had put in place an effective compliance program. This mitigating credit under the guidelines is contingent upon prompt reporting to the authorities and the non-involvement of high level personnel in the actual offense conduct.

Chapter Eight outlines seven key criteria for establishing an "effective compliance program":

- ! Compliance standards and procedures reasonably capable of reducing the prospect of criminal activity
- ! Oversight by high-level personnel
- ! Due Care in delegating substantial discretionary authority
- ! Effective Communication to all levels of employees
- ! Reasonable steps to achieve compliance, which include systems for monitoring, auditing, and reporting suspected wrongdoing without fear of reprisal
- ! Consistent enforcement of compliance standards including disciplinary mechanisms
- ! Reasonable steps to respond to and prevent further similar offenses upon detection of a violation

The organizational guidelines criteria embody broad principles that, taken together, describe a corporate "good citizenship" model, but do not offer precise details for implementation. This approach was deliberately selected in order to encourage flexibility and independence by organizations in designing programs that are best suited to their particular circumstances.

Sharing "Best Practices" Ideas

The innovative approach put forward in the sentencing guidelines has spawned complementary efforts by a number of regulatory and law enforcement authorities. Executive agencies such as the Environmental Protection Agency, the Department of Health and Human Services, and the Department of Justice's Antitrust Division have developed, or are developing model compliance programs, programs for self-reporting, and programs for amnesty - all of which are modeled after some aspect of the organizational sentencing guidelines. Industry and peer organizations are forming to share ideas on "best practices" for compliance training and ethics awareness.

The Commission will continue to study the effectiveness of these efforts to implement the compliance criteria of Chapter Eight. In particular, the Commission is interested in assessments of the viability of its efforts to encourage organizations - from large corporations to non-profits organizations to governmental units - to develop institutional cultures that discourage criminal conduct.

Appendix 3

Structural Questionnaire

Appendix

B

**MEASURES OF
ORGANISATION STRUCTURE**

Developing valid measures of organisation structure is an important methodological issue for the OT researcher. The issue is also of extreme value to the practising manager. The manager's interest is not in elaborate measures that tap the elements of, for instance, complexity; rather, it is in answering the question: How can I determine whether an organisation is high, moderate, or low in complexity? The purpose of this appendix is to try to answer this question for all three dimensions of organisation structure. Consistent with our managerial focus, we will avoid the precision that the researcher would demand and settle for simple measures that will provide reasonable estimates of each dimension.

COMPLEXITY

Complexity is a composite concept, made up of three parts. In any effort to tap the complexity dimension, therefore, one must determine the degree to which the organisation is differentiated horizontally, vertically and spatially.

Horizontal differentiation measures

A number of measures can be used to determine the degree of horizontal differentiation. These include the number of departments, number of different job titles, level of training, extent of professional activity, degrees held, routineness of tasks, number of occupational specialties and amount of professional activity.¹

The two most critical factors appear to be the number of occupational specialties and the level of training.² The greater the number of occupations and the longer the period of training required, the more complex the organisation. We propose that managers can use the number of different job titles as an approximate measure of occupational specialties. If this is unduly burdensome, the number of discrete sub-units or departments in the organisation may be substituted. The level of training can be calculated by computing the average length of training required by each occupational specialty.

Vertical differentiation measures

The measurement of vertical differentiation is quite simple. Since we want to know the depth of the structure, we need only to count the number of levels separating the chief executive from the employees working on the output. However, since this may vary within various divisions of the organisation, we should consider both the extreme case and the average. This can be done by determining the number of levels in the deepest single division and the mean number of levels for the organisation as a whole.³

Spatial differentiation measures

Spatial differentiation is a concept that actually embraces the number of geographically discrete facilities, the distance between these facilities, and the allocation of personnel among the discrete locations. Therefore our measure of spatial differentiation must include more than merely a count of the number of geographic locations in the organisation. It must also measure the average distance of the separated places from the organisation's headquarters and the number of people in these separated locations in relation to the number at headquarters.⁴ These latter measures acknowledge that complexity increases with the distance separating a unit from headquarters and the proportion of personnel located at these separated units.

An application

In this section we propose a few simple (some may say *simplistic*) questions to guide the practising manager in assessing complexity, present a scoring table for calculating an overall complexity score.

Table B.1 presents seven questions, the answers to which can provide you with a reasonably accurate estimate of an organisation's degree of complexity. The higher the score an organisation receives on these questions, the greater the complexity.

Two points are important to note. Firstly, the result is an estimate. It is not a precise measuring tool. It is meant only to give you a rough measure of the three elements making up complexity. Secondly, your result means little in absolute terms. It is a relative measure. Ansett Airlines may receive a higher complexity score than Coopers Brewery, but remember that ANZ or BHP would probably outpoint Ansett Airlines; and Coopers Brewery is immensely more complex than Sarich Technologies.

Once a score has been generated, what does it mean to management? To answer this, we have to leave the relative security of making comparisons between absolute numbers and venture into the much more treacherous area of attaching labels to scores. It is dangerous to establish cutoff points for low-, moderate-, and high-complexity scores, but nevertheless it has to be done. If we say that managers face increased co-ordination problems where complexity is high, we cannot avoid defining "high". With the caveat that any cutoff point is going to be somewhat arbitrary, we

Measures of organisation structure 373

suggest the following interpretations: scores under 15 represent relatively low complexity, scores above 22 indicate relatively high complexity and scores of 15 to 22 make up the moderate range.

Table B.1 Complexity questionnaire

Circle your response to each of the following items as they apply to the organisation in question.

1. How many different job titles are there?

a. very few	d. large number
b. small number	e. great number
c. moderate number	
2. What proportion of employees hold advanced degrees or have many years of specialised training?

a. 0-10%	d. 51-75%
b. 11-20%	e. 76-100%
c. 21-50%	
3. How many vertical levels separate the chief executive from those employees working on output in the deepest single division?

a. 1 or 2	d. 9 to 12
b. 3 to 5	e. more than 12
c. 6 to 8	
4. What is the mean number of levels for the organisation as a whole?

a. 1 or 2	d. 9 to 12
b. 3 to 5	e. more than 12
c. 6 to 8	
5. What is the number of separate geographic locations where organisation members are employed?

a. 1 or 2	d. 16 to 30
b. 3 to 5	e. more than 30
c. 6 to 15	
6. What is the average distance of these separate units from the organisation's headquarters?

a. less than 10 kilometres	d. 501 to 3500 kilometres
b. 11 to 100 kilometres	e. more than 3500 kilometres
c. 101 to 500 kilometres	
7. What proportion of the organisation's total work force are located at these separate units?

a. less than 10%	d. 61 to 90%
b. 11 to 25%	e. more than 90%
c. 26 to 60%	

Scoring: For all items, a = 1, b = 2, c = 3, d = 4, e = 5. Add up the score for all seven items. The sum of the item scores is the degree of complexity (out of a possible 35).

FORMALISATION

Table B.2 presents a brief test, the answers to which can give you a reasonable estimate of the degree of formalisation in a unit or organisation. It taps the major elements in formalisation: the degree to which job descriptions and regulations are specified, the

374 Appendix B

degree of supervision, the amount of freedom given to subordinates and managers, the degree of work standardisation, and the degree to which regulations exist and are enforced.

Table B.2 Formalisation questionnaire

Circle your response to each of the following items as they apply to the organisation in question.

1. Written job descriptions are available for
 - a. operative employees only.
 - b. operative employees and first-line supervisors only.
 - c. operative, first-line supervisory and middle management personnel.
 - d. operative, first-line supervisory, middle and upper-middle management personnel.
 - e. all employees, including senior management.
2. Where written job descriptions exist, how closely are employees supervised to ensure compliance with standards set in the job description?

a. very loosely	d. closely
b. loosely	e. very closely
c. moderately closely	
3. How much latitude are employees allowed from the standards?

a. a great deal	d. very little
b. a large amount	e. none
c. a moderate amount	
4. What percentage of non-managerial employees are given written operating instructions or procedures for their jobs?

a. 0-20%	d. 61-80%
b. 21-40%	e. 81-100%
c. 41-60%	
5. Of those non-managerial employees given written instructions or procedures, to what extent are they followed?

a. none	d. a great deal
b. little	e. a very great deal
c. some	
6. To what extent are supervisors and middle managers free from rules, procedures and policies when they make decisions?

a. a very great deal	d. little
b. a great deal	e. none
c. some	
7. What percentage of all the rules and procedures that exist within the organisation are in writing?

a. 1-20%	d. 61-80%
b. 21-40%	e. 81-100%
c. 41-60%	

Scoring: For all items, a = 1, b = 2, c = 3, d = 4, e = 5. Add up the score for all seven items. The sum of the item scores is the degree of formalisation (out of a possible 35).

The questionnaire differentiates levels in the hierarchy. For definitional purposes, operative employees are all non-supervisory and non-managerial personnel, and first-line supervisors are the people who directly oversee operatives.

Measures of organisation structure 375

Now let us establish some categories from which interpretations can be made and then work through an application. Our experiments with Table B.2 indicate that scores under 18 represent relatively low formalisation, scores above 25 indicate relatively high formalisation, and scores of 18 to 25 show moderate formalisation. Of course, our measurement questionnaire is not a precise tool. It would be reasonable to expect deviations based on differences in interpretation, but these should amount to no more than several points either way. While scores of 17 and 19 may suggest the difference between low and moderate formalisation, common sense suggests caution in such labelling. Scores with large differences, though, are important. A score of 15 is low, whereas one of 30 is high. The latter organisation is considerably more formalised than is the former.

We used our seven-item questionnaire with two units in the same organisation to demonstrate, not only how the instrument works, but also that different parts of an organisation may have significantly different degrees of structure. The organisation is the manufacturing arm of a large communication company. The areas examined were production and the research laboratories. The production facilities were found to be highly regulated. For instance, in the unit that assembles relay equipment, all employees have formal job descriptions and are supervised closely, procedure manuals exist for all jobs and managers follow closely the corporate policy manual in the making of day-to-day decisions. This unit scored 29 points on the formalisation questionnaire. Evaluation of the research-and-development laboratories told a completely different story. Staffed by professionals, many with Ph.D.s and years of scientific training, you would expect less formalisation. Our score of 16 suggests this to be the case, but not to the degree that one might have predicted. The research scientists had a great deal of freedom, but supervisors and managers had to follow corporate policies and file many of the same reports as those in the more routine divisions. Additionally, the jobs of clerical employees in the laboratory were as programmed as their counterparts in production.

CENTRALISATION

As with the prior two components, a short questionnaire (see Table B.3) is provided to assist you in making a rough appraisal of an organisation's degree of centralisation.

The questionnaire taps the degree of influence that top management has over key parts of the decision-making process and the amount of discretion that the typical first-line supervisor has over the critical elements in his or her job. The scoring of the questionnaire is along the lines of the previous ones. Approximate guides for translating scores into categories are as follows: 40 points and above represents high centralisation, 21 to 39 is moderate and 20 or less indicates low centralisation (or decentralisation).

Appendix B

Table B.3 Centralisation questionnaire

Circle your response to each of the following items as they apply to the organisation in question.

1. How much direct involvement does top management have in gathering the information they will use in making decisions?

a. none	d. a great deal
b. little	e. a very great deal
c. some	
2. To what degree does top management participate in the interpretation of the information input?

a. 0-20%	d. 61-80%
b. 21-40%	e. 81-100%
c. 41-60%	
3. To what degree does top management directly control execution of the decision?

a. 0-20%	d. 61-80%
b. 21-40%	e. 81-100%
c. 41-60%	
4. How much discretion does the typical first-line supervisor have over establishing his or her unit's budget?

a. very great	d. little
b. great	e. none
c. some	
5. How much discretion does the typical first-line supervisor have over determining how his or her unit's performance will be evaluated?

a. very great	d. little
b. great	e. none
c. some	
6. How much discretion does the typical first-line supervisor have over hiring and firing personnel?

a. very great	d. little
b. great	e. none
c. some	
7. How much discretion does the typical first-line supervisor have over personnel rewards (i.e., salary increases, promotions)?

a. very great	d. little
b. great	e. none
c. some	
8. How much discretion does the typical first-line supervisor have over purchasing of equipment and supplies?

a. very great	d. little
b. great	e. none
c. some	
9. How much discretion does the typical first-line supervisor have over establishing a new project or programme?

a. very great	d. little
b. great	e. none
c. some	

Measures of organisation structure 377

10. How much discretion does the typical first-line supervisor have over how work exceptions are to be handled?
- | | |
|---------------|-----------|
| a. very great | d. little |
| b. great | e. none |
| c. some | |

Scoring: For all items, a = 1, b = 2, c = 3, d = 4, e = 5. Add up the score for all ten items. The sum of the item scores is the degree of centralisation (out of a possible 50).

To illustrate how this questionnaire might be used, let us compare a prestigious, research-oriented university with a state prison. You would expect the university to be decentralised. Decisions about hiring, firing, promotions, performance and goals originate at the department levels by faculty members themselves. Departments in a research university are highly autonomous. A test of our questionnaire at several such campuses substantially confirmed this notion. As a professional organisation, matters relating to teaching and research were controlled almost entirely by the faculty members. Even the department head had little input above the one vote they carried in departmental meetings. However, that was far more than the dean, vice chancellor, or principal had. Scores of 12 to 15 are fairly typical in such organisations. Some decisions—those of a more strategic nature—were centralised. Issues such as campus construction, future campus-enrolment projections and the like, were made by senior administrators.

Analysis of a state prison presents an entirely different picture of decision making. The warden and his close associates were in almost total control. Regardless of the type of decision, authority to make it was at the top. Guards, for instance, had almost no say in decisions, even those that directly affected them. Using the questionnaire in Table B.3, the particular penal institution we evaluated scored 44 points, clearly well into the high-centralisation range.

Appendix 4

The Body Shop

Charter, Targets

& 'The New Bottom Line' Table of Contents

<p>We care about humanising the Money works, success talks. business community: we will Ideals count and add meaning. continue to show that success Values matter and give purpose. and profits can go hand in hand</p> <p>with ideals and values.</p> <p>success</p>	<p>The Body Shop goals and 'The Body Shop has soul values are as important as our - dont lose it.' products and our profits.</p> <p>value</p>	<p>We care about our customers, Be good traders - and will continue to bring sell well but give care humanity into the marketplace. and attention.</p> <p>humanity</p>
<p>We embrace everyone who Enter into the works for The Body Shop and spirit of with The Body Shop as part of partnership. our extended family. We are all We're all in this the Company: it is up to us all to together. make it work.</p> <p>family</p>	<p>The Body Shop Charter</p> <p>The Body Shop Charter exists to record what we are and what we do: all individuals are empowered to contribute in their own way, and to help turn</p> <p>The Body Shop vision of making a better place into a reality.</p> 	<p>We will continue to create Products affect more products which show that we than skin and hair. care: by not testing on animals, Our vital ingredients? by using naturally - based Honesty and responsibility. ingredients that are close to source, by making products which work for our customers.</p> <p>create</p>
<p>Our policies and our products Know ourselves, are geared to meet the real know our customers. needs of real people, both Stay real! inside and outside the Company.</p>	<p>We care about each other as Treat everyone equally. individuals: we will continue to Break down barriers. endeavour to bring meaning Build mutual trust and respect. and pleasure to the workplace.</p> <p>care</p>	<p>Honesty, integrity and caring Be true to yourself and others. form the foundations of the Tell no lies. Open your heart Company, and should flow and mind... be direct. through everything we do.</p> <p>integrity</p>
<p>We will demonstrate our care We are all interconnected. for the world in which we live, Live together by respecting fellow human or die alone! beings, by not harming animals, and by working to conserve our planet. respecting</p>	<p>care</p>	<p>We will continue to search, Re-examine all you've been told... to challenge, to question, Smile, laugh. to celebrate life and generate Enjoy! joy and excitement.</p> <p>challenge</p>

Future Plans - What will The Body Shop do next?

The Body Shop Australia and New Zealand will use its new knowledge to facilitate continuous learning and continuous improvement.

The report, but more importantly the process undertaken for the social audit, is providing The Body Shop with essential information about the way its stakeholders think and feel about their relationship with The Body Shop. There are documented facts and insights into what is happening within the organisation. Stakeholders have articulated what they think about and want from this relationship.

The next step is to tell stakeholders what they are achieving. The data will be used to influence strategic and local decision making. Measurement will be the basis for dialogue. Stakeholders will become directly involved in future planning and change for The Body Shop, so it is hoped that strengthened trust, loyalty and commitment will follow.

The Body Shop has focused on the attributes of honesty, integrity and care in assessing the quality of its relationship with key stakeholder groups. The degree of trust generated gives some indication as to how well this organisation is progressing along the path to reach sustainability for financial, environmental and social matters.

The Body Shop's intention is to move purposefully towards this goal and will report on its progress in the next social audit report scheduled for publication early 2001.

Targets

From The Body Shop's experience of this first social audit, targets have been set under two categories;

- 1 Organisational Targets, based on the verifier's findings, and
- 2 Future Audit Targets, based on stakeholder survey results

1 Organisational Targets

- a Engagement of staff in the process of setting and defining performance indicators. To commence this process 17 targets (Appendix 2) have been drafted for discussion and further development with staff.
- b Widen the definition of stakeholders during the next audit period by:
 - > conducting comprehensive audits for supplier and community groups stakeholders,
 - > widening the customer survey group to include a random sample of customers, including less committed customers, and
 - > extending employee group to include a random sample of Christmas Casual employees.
- c Upgrade the internal data collection reliability and validity. The aim will be to have across all business locations an integrated human resources system that automatically inputs staff feedback, eg: reasons for staff exit. Similar integrated feedback systems for customers and community stakeholders will be developed.

2 Future Audit Targets (Appendix 2)

Stakeholder surveys revealed many areas for improvement. Seventeen items have been identified and a document has been prepared by franchisees and team leaders for distribution to staff for discussion and development to achieve these targets.

Accountability

Accountability for achieving the targets lies squarely at the feet of the owners, franchisees and team leaders.

All are members of the Social Audit Project Team and they enthusiastically take up this challenge.

To obtain a copy of the complementary report

'Further Details of the Social Audit'

Contact: The Body Shop

Corner Wellington and Jacksons Roads Mulgrave Victoria 3170 Australia

Telephone (03) 9565 0500 Facsimile (03) 9560 0033

Cost \$15 (includes postage)

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Appendix 5

RMIT University

“Exploring a Code of Ethics for RMIT”

Aims of Conference

Letter from HRMG

Letter from Vice Chancellor

Code of Ethics

“EXPLORING A CODE OF ETHICS FOR RMIT”

PROGRAM

Friday October 6

Storey Hall, RMIT City Campus

- 8.30 am - **Registration**
- 9.00 am - **Welcome**, *Christine L Fitzherbert, Director, HRMG*
- 9.05 am - **Introduction**, *Chancellor RMIT, Mr Sam Smorgan*
- 9.15 am - **Keynote Address**: *Professor Charles Sampford*
“Exploring a Code of Ethics for RMIT”
- 9.55 am - **Forum Speakers**
- Ms Moira Raynor, *“Ethics in the Workplace”*
 - Professor Peter Singer, *“Ethics for the 21st Century”*
 - Dr Noel Preston, *“Institutionalising Ethics - Case Studies”*
- 11.10 am - **Questions to Speakers**
- 11.25 am - **Morning Break**
- 11.45 am - **Morning Discussion Groups** (*series of questions*)
- 1.00 pm - **Lunch**
- 2.00 pm - **Afternoon Focus Group Workshops** (*concurrent workshops*)
1. *intellectual property*
 2. *business ethics*
 3. *student related ethics*
 4. *gender*
 5. *environmental ethics*
 6. *professional and personal relations*
 7. *commercialisation*
 8. *international students*
 9. *research ethics (animal)*
 10. *research ethics (human)*
 11. *ethics of human resource management*
- 3.25 pm - **Afternoon Break**
- 3.45 pm - **Report Back from Afternoon Workshops** (*Lecture Theatre*)
- 4.45 pm - **Closing Remarks** *Professor David Knowles, Acting Deputy Vice-Chancellor (Resources)*
- 5.00 pm - **Close**

AIMS OF CONFERENCE

- *provide an introduction to broad ethical principles*

- *provide opportunities for discussion of ethical issues relevant to working at RMIT*

- *provide a forum for RMIT staff already dealing with ethical issues*

- *promulgate the concept of a Code of Ethics for the University*

- *provide raw data and ideas for developing an RMIT draft code of ethics.*

RMIT

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**RMIT Staff
Exploring Ethics Conference**

19/9/95

Dear Colleague,

In the context of the University's rapidly changing composition, operations and environment, many RMIT staff face challenging ethical issues in their work. Exploring ethical values for the diverse groups and relationships within the University is an important first step toward developing a code of ethics for RMIT staff.

The Ethics project is supported by the VCEM and funding has been set aside for its implementation. The Ethics project will involve the whole University including academic, teaching, technical, general staff, RMIT Council, students and commercial/community interests. The Human Resource Development Branch (HRDB) is responsible for the facilitation of the project through the Ethics Project Management Committee which is made up of Divisional representatives.

RMIT's Strategic Plan suggests some focus areas for developing a code of ethics. Key words in the strategic plan relate to the following values: *practicality, enterprise, relevance, fairness to all, environmental care, creative orientation, technological innovation, client focus*. These values emphasise the University's role as an education provider, and its preferred means of achieving particular outcomes. In isolation, the goals outlined in the RMIT Strategic Plan do not provide a coherent set of values from which a code of ethics can be formulated. However, the Strategic Plan is the place from which a code of ethics should arise. It provides the visions and means by which to achieve its goals.

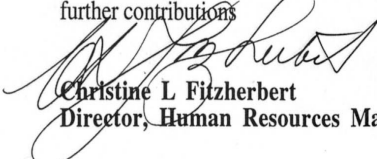
A code of ethics can do several things to build on the existing body of material. Arguably there are clear benefits to be gained from an ethical code for the University and its staff. It can bring to the surface the values and principles underlying those policies and practices that remain relevant. It can provide a powerful platform from which to review policies and practices, and develop new policies to address problems that have not yet been identified.

RMIT is an institutional and administrative entity with specific rights and responsibilities to its various stakeholders. Its members, therefore, must co-exist, co-operate and collaborate to form a community in which everyone's rights within the various layers of the University are observed and protected. Ethics ought to be central to the operation and function of the University. It should clarify the preferred attitudes and modes of behaviour within the various layers of the institution.

A number of articles have been written regarding the merits of adopting a 'bottom up' approach in the development of the code. Without open discussion within the organisation there is a distinct possibility that the code of ethics will become just another managerial tool. The conference will provide a process for broad debate and discussion that will contribute towards the educational outcomes inherent in this project. The initial core principles should begin to *evolve* from the Ethics Conference.

Synthesising and collating the various responses from the Ethics Conference will be undertaken over the next few months. A number of drafts will be written based on the responses from staff and these will be disseminated to all areas of the University for discussion and comment. The process will include an educative function.

Finally, I welcome you to the "Exploring a Code of Ethics for RMIT" conference and I hope you are able to take the ideas and issues from the conference to your work place to extend the debate and invite further contributions.


Christine L. Fitzherbert
Director, Human Resources Management Group

A Great Australian University est. 1887

RMIT**INTERNAL****OFFICE OF THE VICE-CHANCELLOR**

Ext: 51078

Please quote our reference on all correspondence :
MP:DGB:

May 14, 1998

To all staff

RMIT Staff Code of Ethics

I would like to congratulate and thank all those staff who have supported and made substantial contributions towards the development of the RMIT Staff Code of Ethics. It has been developed in response to a general commitment to ethics within the University and has been based on a broadly consultative approach that has aimed to reflect the general views of staff across the University.

It is important that we share a common framework that ensures a positive and creative culture in which to work. The code of ethics is a practical guide to assist staff in ethical behaviour and decision making, especially in a diverse and complex community. The application of the Principles in the code of ethics will be supported and encouraged at all levels of the University.

The code of ethics has the full support of the RMIT Council.

As part of the ethics implementation strategy, staff will be provided with opportunities to be involved in a range of ethics programs throughout the rest of the year. These programs are designed to alert staff to the ethical dimensions of their work and to provide knowledge and tools to enable them to apply the code in the workplace.

As you consider the code and endeavour to apply it, I would be delighted to receive your comments as to possible clarifications, additions or changes of any type. I trust that you find it helpful to undertaking your role in the University.



Professor David Beanland
Vice-Chancellor



Code of ethics

1-8 principles

preamble

In 1995 RMIT held an internal conference to develop a Code of Ethics for staff. The conference provided the opportunity for staff to put forward their views and ideas. This Code is designed to address the key issues raised during the conference and is a response to subsequent ideas and comments raised during additional forums and discussions.

RMIT is a diverse and complex organisation made up of many people from a range of cultural backgrounds with differing values and experiences. As an organisation, we aspire to the highest ethical practice. This aspiration extends to all relationships, including our behavior towards each other. This code of ethics is designed to encourage the entire University community to work together in an atmosphere and environment where shared values are supported and where diversity is embraced for its creative potential. This Code is designed as a guide for assisting the RMIT community when determining how to act on ethical issues during their day to day interactions in support of developing and maintaining a caring environment.

Complex ethical issues will arise in a changing organisation with a large number of staff. Determining ethical practice often requires dealing with ambiguities and uncertainties. The basis for making ethical judgements and decisions will be assisted by applying the principles and values embodied in this Code of Ethics.

statement of commitment

Each individual shares in the responsibility for creating and maintaining RMIT's ethical culture. The Code should act like a filter, screening out those things that violate these principles and providing a positive impetus designed to help shape the ideals we seek to realise. RMIT, its Council and staff are committed to the effective application of this Code of Ethics and to its periodic review.

reference
 Code of Ethics approved by Council, December 1997.
web site
<http://www.rmit.edu.au/departments/hr/ethics>

In fulfilling RMIT's mission and as an acknowledgment of our shared values, we are committed to the following **Code of Ethics:**

- 1 We are committed to student-centred, quality learning opportunities.**
 - 1.1 We assist students in achieving their educational aspirations by making available to them our knowledge, competencies, skills and wisdom.
 - 1.2 We encourage learning and education as a lifelong pursuit.
 - 1.3 We provide a stimulating learning community and environment for students.
 - 1.4 We are reflective in our practice, regularly reviewing and improving our working skills and knowledge.
 - 1.5 We help students to take responsibility for their development and also for the integrity and honesty of their actions and decisions.
 - 1.6 We demonstrate, through teaching, learning and research, our commitment to high professional standards and personal integrity.
- 2 We work towards building a harmonious working environment in which we maximise our professional performance.**
 - 2.1 We affirm the professionalism of our colleagues, trusting and empowering them to work constructively for the well being of the University and the community.
 - 2.2 We recognise and respect, although we are willing to question, established obligations, systems, policies and procedures.
 - 2.3 We encourage staff to be personally accountable for their own performance.
 - 2.4 We expect staff to be effective and responsible in their fields.
 - 2.5 We will consult with integrity in the development of policies and procedures.
 - 2.6 We will provide effective leadership and management which is fair, inclusive and open.
 - 2.7 We support people who take appropriate action concerning instances of impropriety.
 - 2.8 We challenge, in a responsible way, the policies and practices of our University when they impede its Mission or impact unfairly on staff or students.
 - 2.9 We will provide timely and accurate information to our colleagues.
 - 2.10 We promote practices which safeguard the University's reputation and its various resources.
- 3 We recognise and value the contributions made by people to the University.**
 - 3.1 We champion intellectual freedom.
 - 3.2 We respect the intellectual property rights of students and staff.
 - 3.3 We encourage and acknowledge a range of contributions that support our values and principles.
- 4 We demonstrate openness and fairness in all our dealings with people.**
 - 4.1 We encourage honesty and trust in all our relationships.
 - 4.2 We support equity and equal opportunity.
 - 4.3 We encourage the sincere and open discussion of views and opinions.
 - 4.4 We make appointments and promotions with integrity and fairness.
 - 4.5 We are committed to fair and equal treatment in all our business relationships.
 - 4.6 We ensure that assessment of student learning is done impartially, competently and fairly.
 - 4.7 We use our talents, wisdom and expertise to assist in the resolution of conflict.
 - 4.8 We endeavour to provide resources and an environment in which assigned tasks can be done effectively.
 - 4.9 We encourage cooperation with others through the open exchange of information and insights that help to realise our educational mission.
- 5 We respect the essential dignity of all people.**
 - 5.1 We care for and encourage colleagues, students and community members in their professional pursuits.
 - 5.2 We encourage and support students in their pursuit of education and employment.
 - 5.3 We respect difference and welcome creative, or alternative view points, with due consideration for the reputation of staff, students and the University.
 - 5.4 We respect diversity within humanity including gender, spiritual values, sexual preference, age, disability and culture and provide services to support this.
 - 5.5 We recognise the current and historical injustice to indigenous people and so we have a particular concern to meet their needs.
 - 5.6 We work effectively and constructively in the social environment of the individual countries within which RMIT provides its learning experiences.
 - 5.6 We encourage and support the education, professional and personal development of all staff.
- 6 We recognise our responsibility to build civilised communities.**
 - 6.1 We provide quality education that builds the productive capacity of our communities both locally and internationally.
 - 6.2 We are creative and dynamic in our response to the challenges facing society.
 - 6.3 We seek to understand and be concerned with the social contexts within which the skills or knowledge developed in the University are likely to be used.
 - 6.4 We encourage efficiency in the use of our resources while ensuring we do not compromise the quality of our teaching, learning and research.
- 7 We care for the social and natural environment.**
 - 7.1 We support the well being of communities, both local and global.
 - 7.2 We foster and support multicultural environments.
 - 7.3 We recognise and encourage the development of expertise and technology and its application to the improvement of society and the environment.
 - 7.4 We ensure staff and students have the opportunity to become socially and environmentally responsible.
 - 7.5 We will use our resources responsibly and actively seek to minimise or eliminate waste.
 - 7.6 We support and develop curricula that engender a respect for the social and physical environment and which assist our students to explore and assess the impact of their professional practice.
 - 7.7 We encourage and value a safe, healthy, and creative environment in which to flourish.
- 8 We value and support the right to confidentiality.**
 - 8.1 We are committed to keeping private information confidential.
 - 8.2 Confidential information will not be disclosed unless with consent or as required by overriding moral or legal obligation.
 - 8.3 Where it is absolutely necessary to break a confidence, wherever possible the person(s) concerned will be informed of the decision to do so.

Concluding statements

1. The RMIT staff Code of Ethics will be linked with other RMIT policies and procedures. The code articulates the values and principles adopted by the University and all policies should be consistent with the Code.
2. Should a staff member's obligation under the RMIT Code conflict with a professional code, the higher duty always prevails.
3. Where behaviour and/or actions contrary to the Code of Ethics are reported, these complaints will be dealt with under RMIT policies and procedures.
4. In terms of student behaviour, RMIT expects that the practical application of the Code by staff will have a positive impact on students in terms of exemplary practice.

Appendix 6

BHP Pty Ltd

Extracts from the Guide to Business Conduct



GUIDE TO
Business
Conduct



Table of Contents

INTRODUCTION	1
VISION, VALUES, AND STRATEGIC THEMES	2
GENERAL GUIDELINES FOR BUSINESS CONDUCT	3
Principles and Behaviours	3
Leadership	4
COMPANY POLICIES AND STANDARDS	6
Compliance with the Law	7
Occupational Health and Safety	9
Alcohol, Drug, and Tobacco Use	11
Environment	13
Equality in Employment	15
Confidentiality	17
Public Release of Company Information	19
Using and Accounting for Company Resources	21
Information Systems	24
Relationships with Governments	27
Political Contributions and Activities	28
Financial Inducements	30
Use of Third Parties and Agents	33
Gifts and Entertainment	35
Conflicts of Interest	39
Outside Activities	42
Cultural Sensitivity	44
VIOLATIONS OF COMPANY POLICIES AND STANDARDS	45
ACCOUNTABILITY	46
Responsibilities of All Employees	46
Responsibilities of Managers and Supervisors	46
Responsibilities of the Board and Chief Executive Officers	46
Global Business Conduct Forum	47
Reporting and Evaluation	48
DEALING WITH A CONCERN	50
Identifying a Business Conduct Issue	50
Where to Go for Assistance	50
CONCLUSION	54

BHP Business Conduct Helpline

The BHP Business Conduct Helpline is a worldwide service for employees to question or express concerns about business conduct issues, including those covered in the BHP Guide to Business Conduct.

This internal service provides guidance and information to employees who need to discuss business conduct issues outside their business unit. Whenever possible, you should first discuss your issue with your supervisor or manager.

All Helpline calls are treated with courtesy and discretion and callers may choose to remain anonymous. However, employees are encouraged to provide their name and contact details, especially if the issue requires further investigation.

The circumstances of each situation will determine the level of confidentiality that can be maintained but, in most cases, a caller's identity can be protected unless criminal charges are involved. The Helpline adviser will inform the caller if it is necessary to divulge the nature or source of the call to any other person.

In Australia, ring **1800 678 9500** (Freecall – Australia only)
alternatively call, Tieline **8831 4000**.
Elsewhere ring **+61 3 9609 4000**.

Business operating times are between 7.00am-7.00pm Monday-Friday (AEST). Contact outside these hours is possible through a 24 hour answering service. For reverse charges, place your call through an operator (where available) during business operating times.

Confidential contact can be made through e-mail at:
BHP.BusinessConduct@bhp.com.au

Additional information is available on the intranet at:
http://externalaffairs.bhp.com.au/home/bus_cond/index.htm

Introduction

The main purpose of this Guide is to assist employees in making decisions related to business conduct. It provides a common behavioural framework for all BHP employees, regardless of their specific job or where they are located in the world. The document will be made available in a variety of languages, including English, Indonesian, Malaysian, Mandarin, Spanish, Thai, and Vietnamese.

Where the Guide describes Company policies and standards, it should be regarded as a rulebook. However, employees are often faced with questions to which there are no clear answers. Consequently, the Guide is more than a rulebook - it also offers general guidelines that can help employees to deal with complicated issues, and it indicates where to go for assistance in making difficult decisions.

Other purposes of the Guide are:

- ▲ to ensure that all BHP employees, and also consultants, contractors and partners understand the Company's expectations about business conduct;
- ▲ to encourage honest and open discussion about the business conduct issues we face in our global operations; and
- ▲ to promote awareness of BHP's business conduct standards among communities, customers, lenders, shareholders, suppliers, and other external stakeholders. This will enhance the Company's reputation and its ability to operate.

The complex and changing nature of business conduct issues makes it impossible for the Guide to be comprehensive. It is every employee's responsibility to ask questions about issues that are not directly addressed in the Guide and to be alert for situations that appear to be inconsistent with the principles and policies it describes.

The Guide is part of a broad program intended to help all employees to understand and take responsibility for business conduct issues. The program demonstrates the Company's commitment to excellence and its determination to succeed globally. For BHP, success requires exemplary business conduct worldwide.

Vision, Values, and Strategic Themes

To make appropriate business decisions, we need to understand who we are as a Company. Similarly, as competitive pressures increase and community values and expectations change, it is important to know what our Company stands for.

BHP's vision, values, and strategic themes describe who we are and what we aspire to as a Company. These statements provide the foundation for this Guide.

Vision and Values

BHP seeks to be the world's best resources company.

In pursuit of this goal, we bring together a unique combination of capabilities to link resources and technologies for the benefit of customers and communities worldwide.

We are committed to the development of our employees, consistently delivering benefits to our customers, contributing to the communities in which we live and work, and a high standard of care for the environment.

We value safety, honesty, and excellence in all we do.

We will work together as one Company to fulfil these values and the growth to sustain them.

Strategic Themes

Our Mandate to Operate

- ▲ Safety and the Environment
- ▲ Community Relations

Ability to Grow

- ▲ Risk Management
- ▲ Leadership and Learning

Delivering Results

- ▲ Market Development and Delivering Value for Customers
- ▲ Maximising Value
- ▲ One Company Growing Worldwide

General Guidelines for Business Conduct

All employees should understand the BHP way of doing things. We need to have a shared sense of what we should and should not do. We are all responsible for ensuring BHP achieves the highest levels of business conduct.

Our actions should aim to bring lasting benefits to the Company rather than to create only a short-term advantage. Managers will be held accountable for compliance with BHP's policies and standards even if compliance costs the Company business in the short-term. Proper business conduct is in our long-term interests because it engenders loyalty and trust in employees, customers, the communities in which we operate, and other stakeholders. These feelings of loyalty and trust are easily lost or diminished by improper behaviour.

Principles and Behaviours

The principles and behaviours listed below form a general framework within which we should act. They should guide our thinking about the tasks and decisions we face at work on a daily basis.

- ▲ *Compliance with the law.* We must comply with the letter and, where it is clear, the spirit of all laws and regulations relating to the way BHP conducts its business;
- ▲ *Health and safety.* We must conduct our work safely and apply the highest standards to matters that impact the safety, health, or welfare of anyone affected by the Company's products or operations;
- ▲ *Care for the environment.* We must respect the environment and exercise the utmost care to ensure that it is protected;
- ▲ *Respect for people, cultures, and diversity.* Our words and actions must show respect for the diverse range of people and cultures with which we work;
- ▲ *Honesty, integrity, and fairness.* We must act in an honest and fair manner. We must strive to earn and maintain the respect and trust of our co-workers, customers, the communities in which we operate, and others affected by our business;
- ▲ *Accountability and reliability.* We must take personal responsibility for doing our job in the way that best meets the Company's overall objectives.

We must spend our time, manage risk, and use the Company's resources in a responsible and reliable manner;

- ▲ *Continuous learning and information sharing.* We must learn from our experiences and from the experiences of others. To this end, we must share information with our colleagues and other stakeholders whenever appropriate;
- ▲ *Creativity and flexibility.* We must be creative in finding ways to combine skills and resources across the Company. We must flexibly adapt to changing circumstances;
- ▲ *Excellence.* We must strive for excellence in our performance and in the products and services we offer. We must complete projects in an efficient and timely manner;
- ▲ *Persistence.* We must be persistent in meeting the challenges of our business and make a steadfast effort to discover and implement the best solution to every problem; and
- ▲ *Teamwork.* We must cooperate with our colleagues across the Company and work together to achieve BHP's goals.

Leadership

Effective leadership is essential for BHP's continued success. As the Company grows, the quality of our leadership must also grow and develop to meet new demands and opportunities. Leaders demonstrate how BHP's values and standards translate into behaviour and decision-making. They set an example that others can follow.

All employees are responsible for assuming leadership in BHP. It is a basic part of how we are expected to do our work. Different circumstances require different responses, but in all cases, leadership means:

- ▲ acting in accordance with the Company's values, policies, and standards;
- ▲ seeking and sharing information, ideas, and experiences. Leaders support creativity and innovation in the workplace and honesty and openness in others;
- ▲ acting decisively with a focus on excellence. Leaders make timely and

GENERAL GUIDELINES FOR
BUSINESS CONDUCT

COMPANY POLICIES AND
STANDARDS

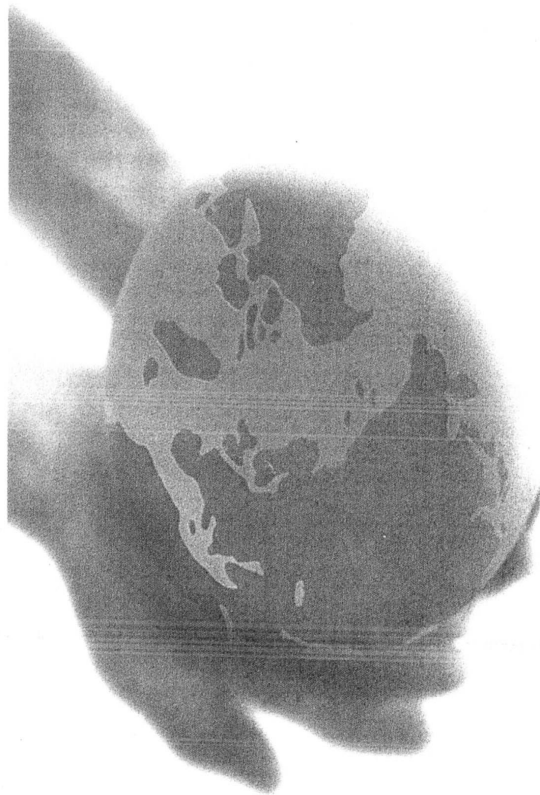
VIOLATIONS OF COMPANY
POLICIES AND STANDARDS

ACCOUNTABILITY

DEALING WITH A CONCERN

informed decisions. They are determined to achieve goals, but never at the expense of breaching the Company's policies or standards;

- ▲ listening to and communicating clearly and honestly with all stakeholders. Leaders ask questions and raise concerns; and
- ▲ developing other leaders by encouraging and supporting them.



Company Policies and Standards

This section of the Guide contains policy statements for many key areas of business conduct. It addresses some of the main issues of concern to BHP, but it is not comprehensive. Please ask your manager or supervisor for information about issues that are not covered.

The policy statements have been summarised for easy reference. In some cases, a lengthy policy exists, but it has been condensed. In other cases, more detailed guidelines or specific procedures are available from other sources. Wherever possible, these sources are noted, and directions are provided to assist you in obtaining further information. If no additional resources are noted, you should contact your manager or supervisor for more details about the policy. Information may also be available on the BHP Intranet.

Most of the policy statements are followed by one or more questions and answers (Q & As). The Q & As are included to clarify the policies and to address the kinds of specific issues you may face in your work.

All BHP employees are accountable for adhering to the policies and standards outlined in this section. Consultants, contractors and partners working with or for BHP should be informed of relevant policies and standards and of BHP's requirement that they act in accordance with them.

Compliance with the Law

BHP employees must comply with the letter and, where it is clear, the spirit of all laws and regulations relating to their business conduct.

Some laws affect everyone, such as those concerning equal employment opportunity and occupational health and safety. Other laws primarily affect employees in particular roles, such as those concerning product liability and trade practices. It is every employee's responsibility to ensure that they fully understand all laws and regulations relevant to their work.

Different countries may have different laws on certain issues. Employees must comply with the legal requirements of the country in which they are working.

The laws that govern our activities may be complex, but ignorance of the law does not excuse BHP or its employees from their obligation to comply. Employees should seek advice from a BHP legal adviser if they are unclear about laws or regulations relating to their work. Matters relating specifically to taxation should be referred to the relevant Taxation Manager for guidance.

Laws such as the Trade Practices Act in Australia and the anti-trust laws of the USA are designed to promote competition and protect consumers. They cover areas such as agreements or understandings between competitors, certain "exclusive" arrangements, misuse of market power, mergers and misleading or deceptive conduct. Breaches of those laws carry potentially serious consequences for BHP and for any individual who may be involved. BHP shares the interest in the conduct of business in a competitive environment. Conduct which is prohibited by competition laws must be avoided. Reference should be made to relevant BHP policy and guidelines. By way of example, discussions with competitors in relation to prices, terms of sale and the like are prohibited. In all cases of doubt, consult a BHP legal adviser.

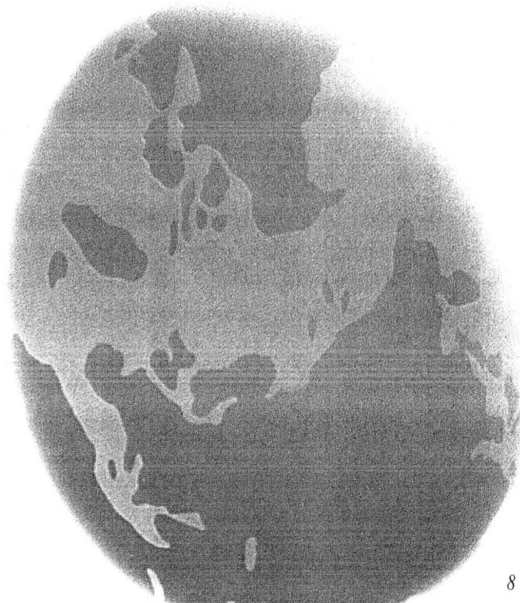
Q. What happens if there is a conflict between a BHP policy and the law in a country in which we operate?

A. BHP Country Managers and senior management within Business units are responsible for providing clear instructions to employees about how to deal with

conflicts between particular laws and BHP policies. If you find that a BHP policy conflicts with a local law, you should report the discrepancy to your manager or supervisor. It is essential for the Company to be aware of cases in which its policies are inconsistent with local legal requirements.

Q. If a law in a particular country is more liberal or less restrictive than a BHP policy, is it acceptable to violate the policy?

A. Whenever possible, employees must comply with both BHP policy and local law. A less restrictive law should not be used as an excuse for breaching a Company policy. For example, we should adhere to BHP's standards of environmental care even in countries that have less stringent legal requirements. However, in some cases, a more restrictive BHP policy could be viewed as impinging on employees' legal rights. For this reason, each situation must be considered individually. Consult your manager or supervisor if you are unclear about what to do in a specific case.



8

informed decisions. They are determined to achieve goals, but never at the expense of breaching the Company's policies or standards;

- ▲ listening to and communicating clearly and honestly with all stakeholders. Leaders ask questions and raise concerns; and
- ▲ developing other leaders by encouraging and supporting them.

