ORGANIZATIONAL CHARACTER

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Abstract:

Business organizations have come to play an increasingly important role in contemporary societies. Some of the large global corporations have revenues that are higher than the GDP of nations. They have a great deal of resources at their disposal and often impact social and economic development significantly. In emerging economies, which have witnessed a phenomenal degree of economic growth, their role in ensuring a sustainable and equitable growth in future is of deep concern. The traditional role of business as a creator of wealth for its shareholders is coming under increasing scrutiny. Examples of Worldcomm, Xerox and Enron critically raise questions about the roles and responsibilities of business organizations. Several writers in the business press refer to the unethical practices of the organizations and exhort organizations to be more socially responsible. Yet in every nation, there are several examples of corporations that have demonstrated high ethical standards. Over centuries, they have also created and perpetuated an ethos where they have voluntarily submitted themselves to public scrutiny on their ethical behaviours. When they have been under the scanner on suspicion for any unethical conduct, they have often set standards for the industry and the society in general. The question that begs an answer is --- what makes for such organizations to consistently demonstrate much higher standards of ethical conduct and integrity than other organizations? How are they able to inculcate this? How do they continuously sustain their ethical capability? The authors argue that such an ethos is created, nurtured and developed by the actions of a critical mass of individuals, acting individually and in collective, along with appropriate ethical systems, structures, policies and processes to build this ethical capability in organizations. This aspect of a collective ethical reasoning capability leading to consistent actions of high integrity by key actors in an organization is being referred to as "Organizational character".

Key words:
Organizational Character, Ethical leadership

Introduction:

The role of corporations in the path of economic development is significant. Their impact on the economic and social well being of communities and societies is enormous. The magnitude and scale of their reach coupled with their financial power, where several MNC's have annual revenues greater than the GDP of several nations, makes them enormously powerful. Rapid globalization, besides offering opportunities for economic growth has also given rise to some significant challenges in the area of governance and responsibility. It is being recognized that wherever the trust in corporate governance is lost, the company also loses the trust of investors (Mc Kinsey & company, 2002). In this context, there is growing recognition that businesses need to be ethical.

The economic decision making process in organizations is dominated by the need to ensure stability and growth while aiming at making a profit, consolidating market position and constantly increasing shareholder value. Actions pertaining to achievement of these outcomes often do not stem from decisions based on the "moral law" or "the greatest good to the greatest number" (Zimmerli & Asslander, 2007). Increasingly moral imperatives seem to be relevant to individual decision making only if they do not conflict with economic interest. Decisions in organizations are not made by individual managers alone; they are made by collectivity of managers acting both in self interest and organizational interest. This combination increases the vulnerability of the moral dimension being compromised in the process of ensuring self and organizational interest. In such a context, what makes for some organizations to consistently demonstrate much higher standards of ethical conduct and integrity than others? How are they able to inculcate the moral dimension in the decision making processes of hundreds of managers? How do they align new recruits and other stakeholders to these views of the organization? The authors argue that organizations which demonstrate a consistent ethical capability demonstrate an "organizational character". In the next section, we distinguish between culture and character. Later we develop an understanding of organizational character through examples and then present an approach to build organizational character.

Distinguishing Culture and Character:

The academic literature has not recognized the importance of organizational character. A search of the EBSCO and Proquest databases reveals only 12 articles which refer to organizational character. All of them use the term character as a substitute for organizational culture or organizational image. Schein's (1984) definition of culture as "the patterns of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration and that have worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think, and feel, in relation to those problems" adequately captures the complexity of the field of organizational culture. To most researchers, values represent an important component of culture in organizations. Rokeach's (1968) framework has been the basis of distinguishing on values. Instrumental values constitute beliefs that guide our behaviour and conduct, whereas terminal values represent outcomes enhancing our state of being. Values exist in a hierarchy in our minds (Ravlin & Meglino,1987), with each of us ranking them differently. Two individuals sharing exactly the same sets of terminal and instrumental values may desire different outcomes and exhibit vastly different behaviour because of variances in their personal hierarchical arrangements (Isaac & Pitt, 2000). In any organization where there are a number of managers making decisions, their personal hierarchies of values, would make them prioritize their interests in different ways.

The process of culture formation has been examined by a number of authors (Schein, 1983;Gagliardi, 1986). According to the authors culture formation occurs through the acceptance of solutions that help to successfully cope with issues facing the organization. Given that the solution works, the group consciously adopts associated values that indicate "this is the way we do things in this situation". Perceived success determines acceptance and the incorporation of these elements. As time passes, group members take these values for granted, and they gradually drop out of conscious awareness. These components have now become assumptions, firmly embedded in the conscious mind. (Issac & Pitt, 2000). Various other elements are known to shape the organizational culture like criteria for making selection and promotion decisions (Schein, 1983; organizational reward systems (Pascale, 1984); teamwork and degree of trust and support displayed by members (Akin & Hopelain, 1987); organizational rites to status and role changes, cultural symbols, language and stories (Beyer & Trice, 1987). The role of leadership as a singularly important factor in shaping the organizational culture is well recognized (Akin & Hopelain, 1987; Sherwood, 1988; Schein, 1983). In particular three aspects of leadership role have significance. These are : what leaders pay attention to, leader reaction to critical events and the role modeling by leaders (Schein, 1983).

While the literature recognizes the role of leader's values, beliefs and assumptions in the shaping of the organizational culture, it however does not explore the moral and ethical dimensions pertaining to the leaders' values, beliefs and assumptions adequately. The role of ethical leadership was first recognized in the leadership literature only recently (Ciulla, 1998). Different leaders will draw up on different personal theories of morality while making decisions in organization. In any economic decision making situation, ethical values are involved either explicitly or implicitly. The choices that leaders make are determined by their ethical orientation. There is a growing acknowledgement that there are certain universal principles that govern human relationships and interactions in any society. Some of these principles include fairness, honesty, integrity, human dignity, potential, trustworthiness, respect, responsibility, caring and citizenship (Beauchamp & Bowie, 1988; Kouzes & Posner, 1995;Greenleaf, 1977; Burns, 1978). These principles act as light houses which help individuals and collectives at the time when they have to make ethical decisions. Organizations will also need to create policies, processes, structures, systems and processes that support, nurture and reinforce the ethical decisions made by employees and managers. The capability of the organization to draw up on the universal ethical principles in its decision making process, aligning its leaders, managers and employees to understand these principles and apply them in practice consistently, senior leadership teams demonstrating these principles through thought and deed in every engagement with various groups and presence of organizational systems, processes, policies, procedures and structures that reinforce these principles, allow for the organizations to demonstrate “Organizational Character”. Palazzo (2007) refers to this process as “organizational integrity”, consisting of the “ethical integrity of the individual actors, the ethical quality of their interaction as well as that of the dominating norms, activities, decision making procedures and results within a given organization”. Our conceptualization of organizational character includes the elements of organizational integrity and goes beyond. Organizational character is conceptualized as a multi-dimensional construct in which integrity is one dimension. The other dimensions include fairness, honesty, integrity, human dignity, potential, trustworthiness, respect, responsibility, caring and citizenship. In the next section, we attempt to illustrate the meaning of organizational character through two Indian examples.

Understanding Organizational Character:

Organizational character operates at two levels in organizations – at the micro level i.e. at the level of individual managers and their actions and at the meso-level i.e at the levels of a department, team or organization. The macro level of the ethical conduct and behaviour of a society or a nation impacts at the meso level and the micro level (Zimmerli & Asslander, 2007). The theoretical framework of organizational character draws on the interactionist paradigm (Trevino, 1996) where behaviours are a seen as a function of the person and the situation/context. It must be noted that in the definition of organizational character is implicit the role based view -- individual managers as decision makers in their personal capacity draw up on universal ethical principles to make decisions and that in their roles as institutional members, also demonstrate either individually or in collective a similar process of drawing up on the universal principles to make individual/collective decisions.

Every organization in the course of its history goes through defining moments (Badaracco, 1997). Defining moments reveals something important about a person’s basic values and about his or her abiding commitments in life. Defining moments compel people to arrange their values in a single file and reveal the priorities among them”. Sometimes leaders in organizations find that they need to make this call.

An example from India of Wipro Limited (Srinivasan, 2003) is highlighted to clarify this aspect. “Conducting business while adhering to the values was treated as a religion by all Wiproites. There were situations when we stopped doing business with some segments of customers, where it was difficult to carry out a business merely on the merits of one’s product quality, cost, delivery and service. We invested in and ran our own generators, thereby incurring huge costs at one of our manufacturing facility, when the State Electricity Board officials were very clear that power would not be connected unless their “informal demands (bribes) were met with”.

In the above example, the decision was taken by the Chairman Azim Premji. The decisions taken by the leader and his team during each incident become a defining moment. At an organizational level, defining moments compel managers to reveal, test and choose the ethical principles of their organization in the manner in which they engage with the problem. Defining moments shape an organizations' character because they cut through all the statements about what a company aspires to do and reveal instead what it actually does. These episodes set precedents and create expectations that shape a company's character for posterity. Defining moments are high stake episodes and they indelibly colour the image that employees and other stakeholders have about the organizations.

What happens when there is no single individual willing or ready to make a decision of this kind? What is the nature of engagement that happens in such situations? The case of another organization operating in the pharmaceutical industry in India is presented to demonstrate collective decision making process. The organization has a code of conduct that any employee forging a bill, if caught will be terminated from the services of the organization. On the 29th of March, the Sales manager of a South region was caught for forging a bill. March 31 is the financial year closure in India. A large order of about $200 million was to be brought in by this sales manager on March 30. The question that was being raised in the leadership team was whether to terminate the services of the employee on the March 29 or on March 31.

The senior leadership team met for about six hours to discuss the case. The arguments by the leadership team were about the consequences of the termination of the employee and the impact to the company's order status. It was being felt that terminating the employee on March 31 would ensure the best benefit for the organization and the employee – the organization would get the order and employee would any way have been terminated and will also get his commission. A number of members on the leadership team felt there would be no severe ramifications or consequences of taking such a decision. However, a small number of the leadership team members felt that by doing so they would be a party to an unethical act. Rules have been framed to penalize such deviant behaviours harshly so that there is no more occurrence of a similar set of behaviours. Since the organization also took a great deal of pride in communicating this policy, such an action, of a delayed termination would send wrong signals in the organization. The key question that was asked by one of the senior executives which changed the course of discussion was "Are we saying that it is all right to forge a bill?" Every one agreed that was not the case and immediately the leadership team took a decision to terminate the services of the employee on March 29. The incident occurred in 1997, but the story is narrated even today in the organization to every new recruit.

The key learning from the above anecdote is about the process of decision making related to ethical behaviors in organizations. Whenever there is a grey area on any moral/ethical issue, there is a need for a dialogue or conversation between key actors. The more the number of employees who are involved in such conversations, the greater is the opportunity to highlight the different perspectives related to the value systems that individual managers come from. Values as mentioned earlier are tacit. Individuals would find it difficult to talk and discuss them; however when they are confronted with incidents like the one above, most people would be able to take an ethical point of view. A discussion of these various points of views allows for clarification of the core values and also allows an opportunity for young managers to create the shared values.

The role of institutional systems should not be underestimated. Structures in organizations create certain processes independent of individuals. Reward and control structures are likely to significantly impact Organizational Character.

Building organizational character:

How do organizations build Character? From the previous section it is clear that the role of leadership in building organization Character is quite critical. It is possible to view the process of leaders and critical managers behaving ethically from an enactment perspective (Weick, 1995). When people act and the reasons for their actions are volitional, they become harder to disown and they become committed actions. The other individuals in the organization then notice these committed actions. "Commitment drives interaction patterns by tying behaviours, explanations, social support and expectations together in a causal sequence. This action is a social phenomenon and this act will produce an interaction. This interaction is likely to result in an ownership of ideas by other members. (Weick, 1995). From this description, it is clear that individuals appear to determine the strength of Character. Although CEO's are important organizational players, they do not act alone, and an organizations strategies and performance are influenced by the decisions made by its Top management team. Strategists, therefore, do not come to the strategy process tabula rasa; they inevitably bring their particular set of deeply rooted personal values with them. During strategy formulation, some of these values can become important enough to influence the organizational agenda. Therefore, an organization which demonstrates Character will strive to build the universal ethical principles as a part of the values and also as part of the strategy determining process. Some of these values then manifest as corporate values and then take shape through defining episodes, which signal the acceptance and endorsement of a particular principle. The community then interprets these signals and those, which are consistent and enduring, determine the character (See fig 1).

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Institutional structures allow the embedding of values in the decision making processes. Organizations do this through various mechanisms --- the values document, the codes of conduct, ethics officers. These are the formal processes for reinforcing and perpetuating the dimensions of Organizational character. The reward structures and control systems are the two critical mechanisms which influence character building processes in organizations. When employees experience ethical conflicts, the reward structures and control systems effectively enable employees to make these choices. Based on the interactionist perspective that is being taken by the authors, the role of the situation/context in shaping ethical behaviours of individuals and collectivity is significant. If the reward systems signal unambiguously the nature and the course of action to be taken, employees who may be "vulnerable" to an unethical act, would act with integrity. Figure 1 depicts the relationship across the relevant variables presented above. The figure could be enhanced by other variables such as environment (technology, social), economic consideration, top management aspirations, organizational vision and agenda and the like to make the framework more comprehensive.

Employees in the organization have to see the fairness and justice in the organizational systems. Justice decisions focus on two kinds of justice --- distributive justice --- the fairness of the way the outcome are distributed and procedural justice --- the fairness of the procedures used to determine those distributions (Greenberg & Lind, 2000). Four sets of principles are often evoked:

- The equity principle: outcomes should be distributed proportional to contribution
- The perception principle; justice is in the eye of the beholder
- The voice principle: input into decisions enhances perceptions of fairness
- The interpersonal justice principles: socially sensitive treatment enhances perceptions of even undesirable outcomes

Any decision acted upon/not acted upon will be evaluated by the employees and interpreted using the above mentioned principles. If the interpretation is consistent with the experienced reality and other actions that occur in the organizations, employees will experience the organizational character more powerfully.

Most of the principles that shape character are often well understood at the interpersonal level. However these principles need to be understood and shared at the level of an organization. When individuals consistently demonstrate these values in their actions and the structures recognize and reward these behaviours, the organizational character becomes strong. In emerging markets like India where the ethical conduct at the level of society is weak, organizations will have to demonstrate character in the manner in which they engage on some of these ethical dimensions with the various stakeholder groups. This will call for greater reflexivity among the managers and leaders and also a much wider systemic thinking capability of leadership. Beyond leadership is the ability and need to create Ethical institutions. This challenge of building ethical institutions in emerging markets will demand more of Ethical leaders from corporations.

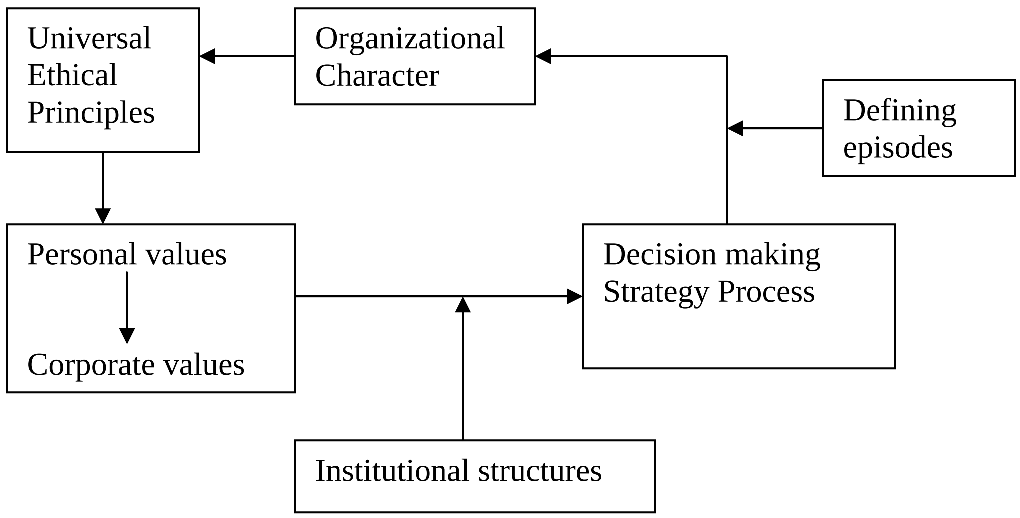
Universal Ethical Principles
Organizational Character
Defining episodes
Personal values
Corporate values
Decision making Strategy Process
Institutional structures

Figure 1

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