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Modeling Ethical Business Culture: Development of the Ethical Business Culture Survey and Its Use to Validate the CEBC Model of Ethical Business Culture

Douglas Jondle · Alexandre Ardichvili · James Mitchell

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Abstract This article reports the results of research to develop a survey instrument and its use to validate an ethical business culture construct (CEBC Model). The reported three-stage quantitative study builds on our previous qualitative work, aimed at identifying dimensions of ethical business cultures. The research resulted in a parsimonious construct, covering five dimensions of ethical business cultures, and a ten-question instrument, measuring this construct. In this article, we report results of exploratory and confirmatory factor analyses and convergent construct validity testing, discuss the potential applications of the construct and instrument in assessment and development of ethical business cultures, and provide recommendations for industry practitioners and for further research.

Keywords Ethical business culture · Business ethics · Ethical business culture instrument

Introduction

The global financial crisis of 2008–2009 was accompanied by a series of revelations about major violations of ethical and moral codes at a range of business institutions in the United States (US). This came as a surprise to many business practitioners and academics, who hoped that measures, taken after the spectacular scandals of the early 2000s, would prevent the re-occurrence of such excesses. Indeed, during the last two decades most large US-based corporations have articulated codes of ethics, implemented procedures for monitoring and reporting ethics violations, and developed ethics training programs for their employees, but was this sufficient to create safeguards against repeating the mistakes of Enron, Arthur Andersen, and Worldcom? Does the recent re-occurrence of ethical breakdowns in the business world suggest that measures, taken by regulators and corporate leaders, failed to provide reliable protection against major ethics violations? If so, were the measures appropriate, were they targeting the right set of issues and problems?

When it comes to promoting ethical business practices, most US-based corporations focus on two main strategies: (1) the creation and enforcement of procedural frameworks for regulating business behavior and (2) the creation of training programs, aimed at increasing ethics and moral awareness among employees of the organization (Schminke et al. 2007). However, both of these strategies may prove to be insufficient protection against major ethical breakdowns. Scholarly research and anecdotal evidence suggest that without fundamental changes in corporate cultures such measures as creating codes of ethics, developing ethics training programs, or establishing procedures for reporting ethics violations will not have a long-term effect (McGill Murphy 2010). Individual moral development is necessary to insure that individuals will do the right thing when faced with difficult ethical choices (MacIntyre 1991), but supporting and promoting such individual development through training programs is only one of the necessary conditions. The other is ethical social environment, or culture, manifested in organizational rituals, myth, symbols, and informal rules of conduct, which creates fertile ground for moral development, and makes it possible to act

D. Jondle (✉) · J. Mitchell
Center for Ethical Business Cultures, University of St. Thomas, Minnesota, Opus College of Business, 1000 LaSalle Avenue, TMH331, Minneapolis, MN 55403-2005, USA
e-mail: djjondle@stthomas.edu

A. Ardichvili
University of Minnesota, Minneapolis, MN, USA

according to one's convictions (Feldman 2007; Goodpaster 2007; Schminke et al. 2007).

In operationalizing interdependent business functions within the complexity of globalization, companies are constantly confronting and dealing with the interactions fostered when creating, executing, and sustaining ethical business practices. Through a myriad of legal necessities—Sarbanes Oxley Act of 2002, Dodd-Frank Act, Federal Sentencing Guidelines, United Nations Global Compact, the Consumer Charter for Global Business, etc.—publicly traded companies within the US (this includes those companies based outside the US, but doing business in the US) (Paine et al. 2005), focus on strategies in creating and enforcing principles meant to regulate employee behavior and designing employee training programs that heighten ethical awareness within the organization (Schminke et al. 2007). However, these strategies appear to be insufficient in preventing ethical breakdowns particularly in light of a plethora of major violations of ethical and moral conduct within the business community. It is argued that what is needed is the creation and continued development of an ethical social environment or ethical business culture that includes formal and informal components that nurture moral development and personal actions based on one's convictions (Feldman 2007; Goodpaster 2007).

Organizational cultures and climates are complex phenomena, difficult to define, study, and measure (Schein 2004). However, to be able to develop and to support an ethical business culture in an organization, ethics and compliance officers, HR managers, and business executives in general need to be able to utilize some quantitative benchmarks by which to gage the initial conditions and, later, progress of their efforts. We argue that creating formal codes of ethics and conducting ethics training is necessary, but insufficient. Ethical behavior is promoted and facilitated by an ethical business culture. To develop and to support ethical business cultures in organizations, practitioners need to be able to utilize quantitative benchmarks for measuring the initial parameters and later progress of their efforts. Therefore, the creation of constructs and reliable instruments, aimed at measuring dimensions of organizational ethical culture, is both practically and theoretically important.

In this article, we report and discuss the results of three stages of research, with the goal to develop a survey instrument to be used to validate the new ethical business culture construct. The study, reported here, builds on previous qualitative research aimed at identifying dimensions of ethical business cultures based on the perceptions of business executives and academics (Ardihvili et al. 2009). We report results of exploratory and confirmatory factor analyses (CFA) and of the convergent construct validity testing, discuss the identified construct and its relationship with existing models of ethics, ethical leadership, and culture, and provide recommendations for further research and practice.

Definitions and Study Background

Ethical Business Culture

According to Hartman (1996), "corporate culture is important to business ethics because it is a vehicle for imparting and maintaining the moral principles and the values, good and bad, that animate life in the organization" (p. 150). Schein's (1985) definition of organizational culture adds to our understanding of what an ethical business culture may consist of. According to Schein, culture is, in its most fundamental form, a set of learned responses to various events and stimuli, where "basic assumptions and beliefs that are shared by members of an organization… define in a basic 'taken-for-granted' fashion an organization's view of itself and its environment" (1985, pp. 5–6).

Cohen (1993) asserted that cultures of business organizations manifest themselves through complex combinations and interplay of formal and informal systems and processes, and formal and informal interactions between organizational members and various outside stakeholders. Formal components of organizational business culture include structure, policies, reward systems, mechanisms of socialization of newcomers, decision making routines, and formal procedures for managing processes and leading people. Informal culture components, on the other hand, include unarticulated and tacit norms, values, heroes and role models, organizational stories, myths and rituals, and historical anecdotes (Cohen 1993; Dion 1996; Schein 2004; Trevino 1990; Trevino and Nelson 2004).

Summarizing their literature review on ethical business cultures, Ardichvili and Jondle (2009) indicated that ethical business cultures are:

> …based on an alignment between formal structures, processes, policies, training and development programs, consistent value-based ethical behavior of top leadership, informal recognition of heroes, stories, and the use of rituals, metaphors and language that inspire organizational members to behave in a manner consistent with high ethical standards. Personal moral development and authenticity of leaders is an important contributor to the overall ethical climate and culture of the organization. Finally, when developing ethical culture programs, business organizations need to address not only formal compliance requirements, but need to take a step further and focus on identification of a set of corporate values

and the alignment of those values with all other elements of the culture, including day-to-day operations of the organization. (p. 237)

Study Background

The research project proceeded through four stages, three of which are discussed in detail in this article. Stage 1 of the research involved a comprehensive review of the literature on ethical business cultures (results reported in Ardichvili and Jondle 2009), and a qualitative study with the purpose of conceptualizing a model of characteristics attributed to ethical business culture (Ardihvili et al. 2009).

The Stage 1 research methodology was based on the grounded theory approach reported by Creswell (1998). This approach allowed the researchers to develop a theory that described a phenomenon revealed through field investigation. The qualitative key informant interview method was used to collect data (Kumar et al. 1993). The methodology allowed for data collection from a non-random sample of key informants. Interviews were conducted with a group of selected individuals who possessed specific, relevant information that pertained to an organization's ethics-related practices. Sixty-seven key informants were identified for the study. Interviewees were asked two questions: first they were asked to identify companies that exhibit ethical business cultures and second, they were asked to describe what makes these companies ethical. Eighty-six companies were identified and 389 descriptive statements were generated.

Data analysis was conducted based on the qualitative data clustering method, developed by Miles and Huberman (1994). The 389 statements were clustered to generate list of major clusters and representative statements. Working independently, each researcher developed their own set of clusters and assigned representative statements. Upon review of exchanged lists, the next iteration of the cluster/statements was developed. This process proceeded through three rounds.

In the qualitative study, Ardihvili et al. (2009) identified a model, the Center for Ethical Business Cultures Model (CEBC Model), of ethical business culture consisting of five characteristics: Values-Driven, Leadership Effectiveness, Stakeholder Balance, Process Integrity, and Long-term Perspective (Fig. 1). The analysis resulted in a list of 35 Likert-style items (scale of 1 = strongly disagree, 2 = disagree, 3 = slightly disagree, 4 = neutral, 5 = slightly agree, 6 = agree, 7 = strongly agree, and a Don't Know category) distributed across the five characteristics that were available for inclusion in the quantitative questionnaire (Table 1).

The model's keystone is the characteristic Values-Driven. It embodies the organization's consciousness. The

Fig. 1 Model of an ethical business culture

research reported that Values-Driven behavior was of significant importance in sustaining an ethical business culture. The data demonstrated when core business functions were aligned with Values-Driven behavior a corporate culture was created that promoted employee congruence and company longevity.

Effective leaders lead effective organizations. Ethical leaders lead ethical organizations. An effective ethical organization has effective leaders that "walk the talk" exemplifying alignment of personal with organizational values. The data described the Leadership Effectiveness characteristic as leadership created and leadership sustained ethical culture, which was characterized by ethical leaders that are non-retaliatory, but expect reciprocity of ethical behavior from all stakeholders.

Stakeholder Balance was characterized by tension; tension between all the stakeholders (e.g., customers, employees, owners, and community) of the organization. Focused attention on any one stakeholder for too long creates an imbalance that harms the integrity of organizational culture. It distorts the decision-making processes that lead to ethical breakdowns. Attention to all stakeholders moderates the tensions between the various stakeholder groups, but tensions will continue to exist. In an ethical culture that is cognizant of Stakeholder Balance, a voice emerges that redefines an organization's purpose in the context of its stakeholders.

The characteristic Process Integrity demonstrated how an organization institutionalizes its company mission and values, and the important role it plays in building and sustaining an ethical business culture. Everything within an organization is interconnected by behavior. Behavior in turn is moderated through the organization's espoused

Table 1 The five characteristics of the CEBC Model and initial 35 items after Stage 1

Values-Driven

"Build relationships of trust and respect"

01. The company strives to build relationships of trust and respect with its stakeholders.

"Corporate values are sustained over long periods of time"

02. The company values express forward thinking focused on long-term relationships with its stakeholders.

03. My company's corporate values invoke steadfastness through time.

"Clarity of mission and values, reflected in ethical guidelines and behavior"

04. Mission and values statements are clearly reflected in promotion of ethical guidelines and expected behavior.

"Institutionalizes ethical values"

05. Values form the basis for all aspects of how the company conducts its business (i.e. how the company hires, fires, promotes, and compensates employees; from product development to product sales and service).

"Strong culture that actively eliminates people who don't share the values"

06. The corporate culture proactively takes disciplinary action against people who do not follow the company's codes of conduct and ethics.

Stakeholder Balance

"Balance all stakeholders (e.g., customers, employees, owners and community) in all their decision-making, consistently"

07. Decision makers strive to consistently balance the interests of all stakeholders (e.g., customers, employees, owners and community).

"Deal with all stakeholders on a consistently ethical and value-oriented basis"

08. Stakeholder needs are consistently addressed based on the company values.

"Good balance of customer value and profit"

09. There is a conscious effort to balance the drive for profit with the need for delivering customer value.

"Giving back to the community in which the company does business"

10. A consistent effort is made to support the communities the company does business in by providing financial assistance, direct aid or through employee volunteerism programs.

11. A consistent effort is made to support the global communities the company does business in by providing financial assistance, direct aid or through employee volunteerism programs.

"Work to be a good corporate citizen in a global economy"

12. The corporate culture encourages social accountability when assessing its impact on a global economy.

"Respectful treatment and fair compensation for employees at all levels"

13. All employees are treated with respect.

14. All employees are fairly compensated for the work they do.

Leadership Effectiveness

"Ethical culture starts at the top and is conveyed by example"

15. Senior leadership believes in promoting an ethical corporate culture.

16. Senior leadership leads by example.

"Senior management demands ethical conduct at every level of the company"

17. Senior management demands ethical conduct at every level of the company.

"CEO and senior management live their lives with great personal integrity"

18. Senior management live their lives with great personal integrity.

"When ethical issues arise, CEO does not "shoot the messenger', but gathers facts and takes action"

19. Dissent is encouraged where ethical issues can be discussed without fear of retaliation.

"Do what they say they're going to do"

20. Leaders make decisions that are acted on.

Process Integrity

"Dedication to Quality and Fairness in its people, processes and products"

21. There is dedication to the quality processes that lead to quality products and services.

"Invest in ongoing ethics training and communication throughout the organization"

22. Ethics training is delivered to all employees on an ongoing basis.

23. Ethical behavior is constantly reinforced through ongoing communications from management.

"Values are reinforced in performance appraisals and promotions"

24. Corporate values are reinforced through performance appraisals.

Table 1 continued

25. Corporate values are reinforced through promotions.
"Values are reinforced in every-day execution"
26. The corporate values are instilled into the every-day execution of business processes and functions.
"Excellent corporate governance processes, supported by Board quality and independence"
27. The Board of Directors of the company supports ethical corporate culture.
"Noble mission is internalized in company processes and behavior"
28. Employees are expected to behave and act ethically.
"Transparent decision-making, by the people closest to the question"
29. The corporate culture encourages ethical and transparent decision-making to be made by the people with the greatest knowledge of the situation.
Long-term Perspective
"Place mission above profit, and long-term over short-term"
30. Mission comes before profit.
31. The long-term perspective is favored over the short-term perspective.
"Acting in the best interests of customers, over the longer term"
32. Decisions are made that favor the best interests of the customers
"Board takes long view in managing shareholder value"
33. The Board of Directors takes the long-term view when managing shareholder value.
"Connect environmental sustainability, social responsibility and profit"
34. Business performance is measured by accounting for its environmental sustainability, social responsibility and financial performance.
"CEO says he's building an institution that he hopes will be here in 50 years"
35. Senior management is emphasizing that they are building a company that will be around in 50 years or more.

values. How effective a role the values play in moderating behavior within the organization is dependent on how aligned the values are within an organization's functional units.

Persistent references to ethical culture in the context of the long-term outcomes and impact lead to identifying the Long-term Perspective as a foundational element of ethical organizational culture. Respondents consistently referred to an organization's long-term orientation as a call to redefine its purpose—mission over profits. Interestingly, characterization of this character drew significantly on descriptions familiar to Stakeholder Balance and Leadership Effectiveness. Respondents linked Leadership Effectiveness with leadership's responsibility to link strategic initiative with stable long-term growth. Stakeholder Balance and the Long-term Perspective focused on supporting customer needs, growing shareholder value over the long-term, acting to safeguard and sustain the environment, and being socially responsible.

Procedure and Study Results

Development of Survey Instrument

The development of the survey instrument adopted a two-step approach suggested by Fabrigar et al. (1999). These two steps were represented by two stages of the research project: Stages 2 employed exploratory factor analysis (EFA) and Stage 3 was conducted using CFA, both reflective model analytical techniques commonly used in business literature (Coltman et al. 2008). Stages 2 and 3 involved administering two separate surveys to evening MBA students at a university located in the Midwestern US. Seventy percent of those students reported having four plus years of full-time employment. Conducting the survey with working professionals enrolled in the evening MBA program ensured that the data represented a range of perspectives based on personal business experiences. Additional demographic information is presented in Table 2. To improve the clarity and wording of the 35-item survey instrument resulting from Stage 1 a pilot survey was first administered to a group of 24 evening MBA students enrolled in a single session of the Business Ethics course.

Stage 2 administration of the resulting 30-item, 7-point (1 = strongly disagree to 7 = strongly agree and a Don't Know category) Likert-style survey instrument involved sampling evening MBA students at a university located in the Midwestern US, enrolled in fall 2008 core business courses: Business Law or Business Ethics (MBA1 dataset). Three hundred and forty completed surveys were collected. Since the CEBC Model was based on limited theoretical or empirical data, to explore the factor structure of the instrument, EFA was conducted using IBM SPSS Statistics

Table 2 Demographic data pertaining to the Stages 2, 3, and 4 survey administrations

Demographic (%)	Stage 2	Stage 3	Stage 4	
Age				
18–34	80	77	28	
34–44	16	18	23	
45–54	4	5	32	
55–64		<1	15	
>64			3	
Gender				
Male	56	57	37	
Female	44	43	63	
No. of years employed full-time/current employer			F-t	C
<1 year	1		2	1
1–4 years	28	30	8	29
5–9 years	41	39	14	26
10–19 years	23	23	24	27
20–29 years	6	7	29	13
>29 years	<1	1	24	4
Industry				
Manufacturing	16	17	NA	
Construction/engineering	5	5		
Restaurant		<1		
Food Industry	4	2		
Retail/wholesale	13	12		
Healthcare services	5	6		
Healthcare products/pharmaceuticals/medical devices	10	8		
Government/public administration	2	2		
Communication services/utilities	3	3		
Hotels/lodging	1	<1		
Transportation	1	2		
Financial services/insurance/real estate	19	26		
Accounting/legal/business services/consulting	6	5		
Education	1	3		
Non-profit	3	3		
Other	11	6		
No. of people employed in firm				
<100	12	12	NA	
100–249	6	6		
250–499	5	5		
500–999	3	4		
1,000–4,999	14	17		
5,000–9,999	7	11		
>9,999	53	46		
Job-level				
Non-supervisor	56	61	64	
Supervisor	12	13	9	
Manager	26	19	24	
Executive/senior manager	5	7	3	

Version 19 principal axis factoring with oblimin rotation method (Fabrigar et al. 1999). Upon evaluation of eigenvalues and scree plot four factors were detected (Table 3). Items that failed to load strongly on any of the factors were deleted (*I09* and *I20*) or loaded on all four of the factors demonstrating no strong affinity for any particular factor (*I03*). Other items were eliminated either due to ambiguity as indicated by a high incidence of "Don't Know" responses (*I23* and *I28*) or because items were deemed redundant (*I24*) by content experts.

Stage 3 analyses were based on a survey sample of 258 evening MBA students enrolled in core business courses in the spring 2009 semester (MBA2 dataset). Students were asked not to participate in the survey if they had participated in previous administrations. The revised survey instrument was comprised of 24 items. CFA using AMOS™ 17.0 was conducted to further understand the factor structure of the instrument and Cronbach's alpha was calculated on the dataset to determine the internal consistency and reliability of the instrument. Based on EFA results and the qualitative research conducted in Stage 1, CFA was specified with five factors as originally outlined with the CEBC Model (Fabrigar et al. 1999). RMSEA/PCLOSE, NFI, CFI, χ^2, and Cronbach's alpha values are reported in Table 4. Note that Cornbach alpha values were 0.88 and above (while acceptable minimum level is 0.7 according to Howell 1992 and Nunnally 1978), and values for RMSEA/PCLOSE, NFI, CFI, were all within acceptable limits (Schumaker and Lomax 2010).

The result of CFA and the systematic variation of the model structure that included varying item combination assessments identified a construct that consisted of the five characteristics (latent variables) labeled: Values-Driven, Stakeholder Balance, Leadership Effectiveness, Process Integrity, and Long-term Perspective (Fig. 2). In addition, a sixth latent variable was identified and labeled as Operational Ethical Business Culture (OEBC). This variable covaried with the Values-Driven variable. In this model, Leadership Effectiveness, Stakeholder Balance, Process Integrity and Long-term Perspective are correlated with OECB. Leadership Effectiveness was also directly linked to the Values-Driven variable. Items that did not significantly contribute to the explanation of the variability and fit were removed. Further refinement of the survey instrument was achieved through a systematic step-by-step analysis of

Table 3 EFA results Stage 2 on the MBA1 dataset

Item	Factor			
	1 General culture	2 Process integrity	3 Culture with strong emphasis to long-term	4 Values
Value-Driven				
I01	.745		.638	.597
I02	.660		.630	.622
I03	.630	.571	.535	.625
I04	.661	.537	.575	
I05	.517			
Stakeholder Balance				
I06	.736		.586	
I07	.720		.611	.527
I08	.605		.584	
I09				
I10	.750		.585	
I11	.613			
Leadership Effectiveness				
I12	.874	.531	.589	
I13	.870		.610	
I14	.814	.580	.536	
I15	.800			
I16	.783		.609	
Process Integrity				
I17	.613			
I18		.808		
I19	.582	.807		
I20				
I21	.670		.564	
I22	.800	.542	.689	
I23	.667	.568	.614	
I24	.681	.537	.658	
I25	.725	.536	.583	
Long-term Perspective				
I26	.694		.596	
I27	.618		.852	
I28	.540		.761	
I29	.677		.777	
I30	.530		.739	

Principal axis factoring

Rotational method: oblimin with Kaiser normalization

fit based on secondary relationships between the latent variables and the items.

The resulting instrument, the *Ethical Business Culture Survey* (EBCS), contains ten items associated with the five characteristics of an ethical culture (Table 5). The Generalized model (Fig. 2) showed that the ten items accounted for variability of the five characteristics they intended to measure. Five of the items correlated singularly with the expected characteristics (Stakeholder Balance: *I08—balancing profit with customer value*, Leadership Effectiveness: *I13—leaders lead by example* and *I14—leaders expect ethical conduct*, Process Integrity: *I22—processes and functions reflect values* and Long-term Perspective: *I30—leaders building/sustaining*). The remaining five items (Values-Driven: *I01—build relationships of trust and respect* and *I04—business conducted through values*, Process Integrity: *I17—dedication to quality*, and Long-term Perspective: *I26—business decision based on values* and *I27—long-term favored over short-term*) accounted for variability within the model as expected, as well as co-loaded onto several other latent variables to explain some of the model variability. The resulting outcome is a parsimonious, easy to administer and, at the same time, sufficiently comprehensive survey instrument that can be used to measure dimensions of ethical culture in business organizations.

Validation of Leadership Construct

To test the validity of the leadership construct, a convergent validity test was conducted. Convergent validity tests are part of construct validity tests, and are designed to determine whether a new measure relates to existing similar constructs (see, for example, Ferris et al. 2002). This test involved assessment of correlation between the two leadership-related items from the EBCS instrument (*I13—leaders lead by example* and *I14—leaders expect ethical conduct*) and ten items, constituting the *Ethical Leadership Scale* (ELS), developed by Brown et al. (2005).

The ELS is a suitable comparison point for conducting a convergent validity test, since this is a parsimonious and previously validated instrument, measuring the level of ethical behaviors displayed by organizational leaders. If a significant correlation between the EBCS leadership-related items and the ten ELS items can be identified, then confidence that the two items of the EBCS provide an accurate measure of the ethical leadership component of the ethical culture can be established. Linkage of the ELS to the EBCS leadership component would provide for a more illustrative set of items from which to assess leadership within an organization if identified as a problem after initial assessment using the EBCS.

Testing was completed during the Stage 3 administration (MBA2 dataset). Participants were asked to respond to the ELS items on a 7-point (1 = strongly disagree to 7 = strongly agree and a Don't Know category) Likert-style scale. With 70.1 % of the variation accounted for, evaluation of EFA (principal component analysis) and the scree plot demonstrated one component being extracted. A component and correlation matrix is reported in Table 6. The results of the convergent validity test indicated that all

Table 4 CFA statistics and Cronbach's alpha test for Stage 3 (MBA2 dataset) and 4 (IDEAL and ORG datasets) results

CFA Statistics (research stage, model, dataset, figure)	Stage 3	Stage 4			
	Generalized model	Individualized model	Idealized model		
	MBA2 Figure 2	ORG Figure 2	MBA2 Figure 3	IDEAL Figure 3	ORG Figure 3
χ^2/df/probability level	17.5/24/0.826	10.8/10/.376	5.4/7/.617	5.3/7/.625	10.2/7/.177
RMSEA/PCLOSE	.000/.998	.020/.721	.000/.921	.000/.846	.048/.453
NFI	.990	.991	.994	.995	.983
CFI	1.000	.999	1.000	1.000	.994
Cronbach's alpha	.941	.932	.904	.948	.884

df Degrees of freedom

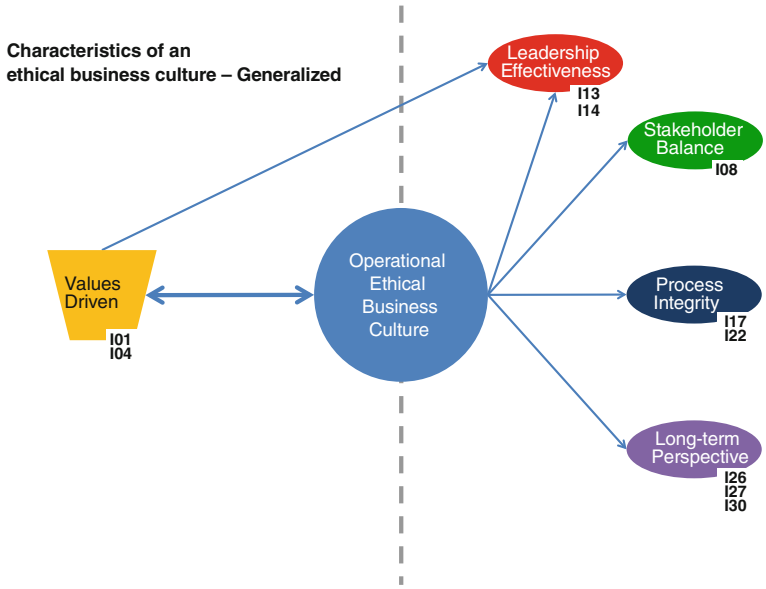


Fig. 2 Generalized model, latent variables with appropriate item loads

Table 5 EBCS items

Values-Driven

I01. The organization strives to build relationships of trust and respect with its stakeholders (e.g., customers, suppliers, employees, owners and community).

I04. The organization's values form the basis for all aspects of how the organization conducts its business.

Stakeholder Balance

I08. The organization balances the drive for profit with the need for delivering customer value.

Leadership Effectiveness

I13. Senior leaders lead by example of personal integrity.

I14. Senior leaders expect ethical conduct at every level of the company.

Process Integrity

I17. There is a dedication to the quality process that leads to quality products and services.

I22. The every-day execution of business processes and functions reflect the organization's values.

Long-term Perspective

I26. Business decisions are based on the organization's values, not just profit.

I27. The long-term perspective is favored over the short-term perspective.

I30. Senior leaders emphasize that they are building/sustaining a company that will be around for the long-term.

12 items loaded onto a single factor and, there were highly significant correlations between the leadership items from both the instruments.

Validation of Model

Stage 4 involved data collection at a large multi-national business organization. It was designed to validate the CEBC Model of ethical business culture measured through the EBCS developed in Stage 3. Survey participants included employees within a single division of the organization (Table 2). Asked to contemplate two perspectives or mindsets, participants responded twice to the EBCS; first they assessed their organization (ORG dataset) and second they assessed their perceived "ideal" organization (IDEAL dataset).

"Idealization" reports back to a concept developed by Goodpaster (2007) where "understood differences between frames of reference for judgment" (p. 33) were referred to as mindsets. Idealization is "used to characterize a way of thinking (values and beliefs) that would be appropriate if certain ideal conditions" (p. 35) exist. Through the concept of mindsets, Goodpaster developed the Mindset Value Profile (MVP). It is based on Symlog, a system used to study groups of individuals (Bales and Cohen 1979). The MVP is a survey instrument administered to assess ethical perceptions across four mindsets. Participants are asked to answer ten items four different times. Each time the respondents answer the items considering a different mindset. The "ideal company" is one of the four mindsets participants are asked to gage ethical perception of.

Within this study the link to the "ideal" organization relates to the qualitative portion of the research (Stage 1) when respondents were asked to identify organizations that exemplified an ethical business culture. The intent in adding this perspective was to establish an IDEAL benchmark to compare the ORG to and to determine if the "ideal" state modeled the organizational level model. The data, collected at this stage, were used to conduct a new series of CFA. To explore the factor structure of the "ideal" construct, we systematically varied the model structure and tested the models by varying the item combinations.

Analyzing the ORG dataset through CFA resulted in the Individualized model that mirrored the characteristics of the model depicted in Fig. 2. The differences between the two models result from varying item loads to the five latent variables. The Individualized model is based on all six of the latent variables and loads *nine* of the ten items identified in Fig. 2: Values-Driven: *I01—build relationships of trust and respect* and *I04—business conducted through values*; Stakeholder Balance: *I08—balancing profit with customer value*; Leadership Effectiveness: *I13—leaders lead by example* and *I14—leaders expect ethical conduct*; Process Integrity: *I17—dedication to quality* and *I22—processes and functions reflect values;* and Long-term Perspective: *I26—business decision based on values* and *I27—long-term favored over short-term.*

Through a process of excluding items and assessing fit using CFA, the IDEAL dataset revealed a simpler Idealized model (Fig. 3). The Idealized model is built around the two variables identified as Values-Driven and OEBC assessed through six of the ten EBCS items. The Values-Driven variable is defined by items: *I01—build relationships of trust and respect, I13—leaders lead by example* and *I14—leaders expect ethical conduct*, associated with the Values-Driven, Leadership Effectiveness, and Leadership Effectiveness characteristics, respectively. Four items representing four different characteristics of ethical business culture load onto the OEBC variable: Values-Driven (*I01—build relationships of trust and respect*), Stakeholder Balance (*I08—balancing profit with customer value*), Process Integrity (*I22—processes and functions reflect values*), and Long-term Perspective (*I27—long-term favored over short-term*) variables depicted in Fig. 2. Absent are the Leadership Effectiveness, Stakeholder Balance, Process Integrity, and Long-term Perspective variables.

To determine if the Idealized model provided an acceptable fit for the MBA2 and ORG datasets, CFA was conducted using each of the datasets. Results showed all three datasets (IDEAL, MBA2, and ORG) fit within acceptable statistical limits when using the Idealized model parameters (Fig. 3).

Discussion

Goodpaster (2007) postulated a model of the moral development and mindset of a corporation with a "corporate conscience" that parallels Piaget's (1932) moral stages of development within children. Through the four stages of development (corporate self-interest, market-based thinking, law-based thinking, and corporate conscience) it is only at the corporate conscience stage that respect of the "rights and concerns" of all stakeholders is achieved. Goodpaster (2007), states that "it was this spirit that lay behind the development of the Caux Round Table Principles for Business as a transcultural set of ethical norms [for business]." (p. 71) The Principles for Business grew out of the Minnesota Principles: toward an ethical basis for global business established by CEBC (formally the Minnesota Center for Corporate Responsibility) (Ryan, 2005). It is no accident that the CEBC Model presents a platform of which corporate conscience is indelibly part of (Fig. 2). By focusing on the five characteristics of an ethical business culture, organizations have specific directions to take in building and sustaining their organizational culture based on ethical principles and metrics to measure progress.

Table 6 Component and correlation matrix for the Ethical Leadership Scale (ELS) and Ethical Business Culture Survey (EBCS) leadership items

Item	Component matrix[a] 1[b]	Correlation matrix[c]											
		I13	*I14*	*ELS1*	*ELS2*	*ELS3*	*ELS4*	*ELS5*	*ELS6*	*ELS7*	*ELS8*	*ELS9*	*ELS10*
I13 Senior leaders lead by example of personal integrity.	.870		**	**	**	**	**	**	**	**	**	**	**
I14 Senior leaders expect ethical conduct at every level of the company.	.718	.695		**	**	**	**	**	**	**	**	**	**
ELS1 Senior leaders conduct their personal lives in an ethical manner.	.827	.731	.618		**	**	**	**	**	**	**	**	**
ELS2 Senior leaders define success not just by results, but also by the way that they are obtained.	.844	.687	.547	.682		**	**	**	**	**	**	**	**
ELS3 Senior leaders listen to what employees have to say.	.832	.719	.532	.596	.664		**	**	**	**	**	**	**
ELS4 Senior leaders discipline employees who violate ethical standards.	.655	.524	.524	.575	.510	.455		**	**	**	**	**	**
ELS5 Senior leaders make fair and balanced decisions.	.914	.783	.649	.703	.722	.775	.579		**	**	**	**	**
ELS6 Senior leaders can be trusted.	.910	.769	.551	.699	.768	.814	.499	.833		**	**	**	**
ELS7 Senior leaders discuss business ethics or values with employees.	.699	.523	.408	.500	.609	.510	.405	.620	.620		**	**	**
ELS8 Senior leaders set an example of how to do things the right way in terms of ethics.	.911	.776	.616	.740	.719	.709	.562	.831	.825	.624		**	**
ELS9 Senior leaders have the best interests of employees in mind.	.908	.746	.547	.710	.746	.777	.536	.814	.842	.593	.845		**
ELS10 Senior leaders when making decisions ask "what is the right thing to do?"	.903	.726	.579	.722	.771	.717	.518	.806	.821	.643	.819	.859	

[a] Extraction method: principal component analysis

[b] 1-component extracted

[c] Sig. (1-tailed)

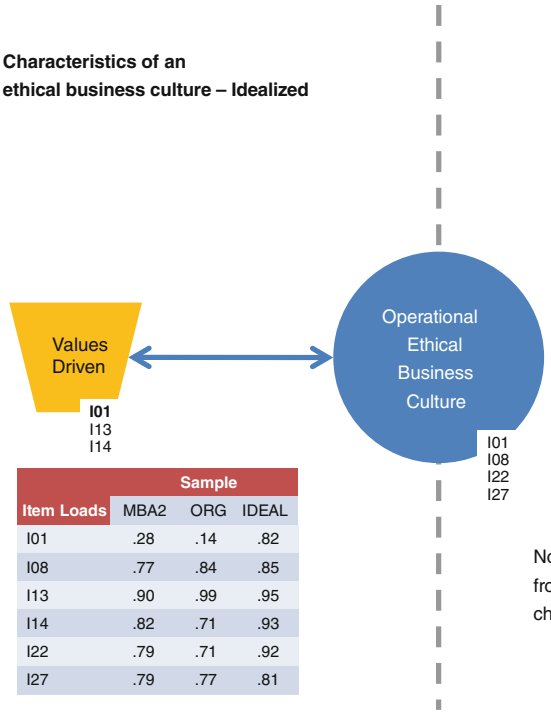
**Significant at $p = 0.01$

The five characteristics of the CEBC Model are: Values-Driven, Stakeholder Balance, Leadership Effectiveness, Process Integrity, and Long-term Perspective. In addition, a sixth characteristic was identified—OEBC.

Values provide the structural integrity that delimits culture—ethical business culture in this case—which in turn imparts knowledge, experience, and expectation that influence leadership's impact on the business operationally and socially. They represent the "lifeblood of the organization" (Ardihvili et al. 2009, p. 449). For an organization to both survive and thrive, its core values and those values reflected in its mission statement must be an integral component of the organization's strategic focus. They must be aligned to foster a high-performance culture and flow freely and systemically throughout the organization to become the genesis of operational norms (i.e., codes of conduct and ethics, human resource processes, financial reporting, etc.) that drive desired behavior.

However, there are two sides or languages of an ethical culture, that which takes its cue from espoused values, and a language of values-in-action (Goodpaster 2007). The benefits from an ethical corporate culture with a conscience are optimized when there is alignment between the core, stated, formal, espoused values and the values-in-action—practiced, informal values. Formal values are indicative of an organization's codes of conduct and ethics, and mission and value statements. Informal values are "driven by the incentives, rewards, hiring and promotion systems of the organization" (Goodpaster 2007, p. 152).

Schein (2004) described the concept of dual norms or values, formal and informal. Formal or stated values are those actively and openly promoted by the organization to



	Sample		
Item Loads	MBA2	ORG	IDEAL
I01	.28	.14	.82
I08	.77	.84	.85
I13	.90	.99	.95
I14	.82	.71	.93
I22	.79	.71	.92
I27	.79	.77	.81

Fig. 3 Idealized model, latent variables with appropriate item loads

affect desired behavior and organizational goals. Informal or practiced values, unwritten and non-specific, are behavioral in nature and are actively practiced within the organization. They evolve through employee experiences and interactions with the organizational processes and possess the potential to deleteriously or beneficially moderate behavior and affect goal achievement. They govern the functionality of an organization. The magnitude of tension between stated and practiced values impacts operational effectiveness; the greater the misalignment between stated and practiced values, the greater the dysfunction within the organization and the greater the chance organizational goals are not achievable. Goodpaster (2007) states: "when the two come into conflict, the second language inevitably prevails" (p. 153). Thus, an organization's success is dependent upon the dynamic and sometimes strenuous interaction between the stated values that define desired behavior within the organization and the practiced values that actually moderate and reinforce the desired behavior within an organization's core business functions and processes.

The stated values form the basis of ethical business culture, and include trust, integrity, and honesty. They are the values posted on the walls of organizations' lobbies. They are the essential elements of any organization that wishes to operate in an environment cognizant of its stakeholders. Within the framework of an ethical culture are constructs-directing behavior that instill organizational purpose and provides direction and aspiration to its employees. An organization's mission, vision, and values are those constructs defining stated values and principles that establish expectations of behavior within the organization. They are the values depicted in Fig. 2 by the construct Values-Driven.

The practiced values are indicative of the operational aspect of the organization and are depicted in Fig. 2 by the construct labeled OEBC. It is a second-order factor that has no direct measurement metrics assigned to it (Schumacker and Lomax 2010). In the model its relationship is hypothesized as co-varying with the Values-Driven construct and explaining the first-order factors Leadership Effectiveness, Stakeholder Balance, Process Integrity, and Long-term Perspective.

Granted, the Leadership Effectiveness construct in the CEBC Model as measured by the two items in the EBCS is limited in scope in detailing the characteristics of ethical leadership. As intended, the Leadership Effectiveness construct provides a high-level assessment opportunity in its administration potentially identifying issues of concern or reassurance. The Leadership Effectiveness and the ELS constructs in tandem provide a means to explore ethical leadership within an organization in greater detail as demonstrated by the positive linkage of all 12 items. The Leadership Effectiveness construct focuses on two broadly defined leadership qualities—that leaders "lead by example" and they "expect ethical conduct" from all employees. These two qualities form the basis of the ELS construct—"ethical leadership emerges out of a combination of characteristics and behaviors that include demonstrating integrity and high ethical standards, considerate

and fair treatment of employees and holding employee accountable for ethical conduct" (Brown et al. 2005, p. 130). These "characteristics and behaviors" broadly measured through the Leadership Effectiveness construct exhibit an expanded more specific measurement opportunity, when needed, through the ten ELS items.

The variable Leadership Effectiveness is linked to the two variables Values-Driven and OEBC. This is a reasonable expectation with leadership setting the tone for most companies through the organizations' value statements that are incorporated into their mission and vision statements. As leaders "lead by example of personal integrity" (*I13*), their values are translated through practice into "values in-use" (to paraphrase Schein's (2004) famous "theories-in-use" term) that may or may not resemble the stated values or formal norms. These "practiced" values or informal norms take on a life of their own within the organization, influencing behavior that may not conform with intended behavior as designed by the stated values.

Founding leaders create organizations imaged by behavioral expectations and governed by specific stated values. Establishment and institutionalization of these stated values within the organization will dominate behavior (the keystone) creating an environment that shapes and moderates an organization's culture and defines the evolving leadership behavior (see Fig. 2). According to Schein (1992):

> Culture and leadership are two sides of the same coin in that leaders first create cultures when they create groups and organizations. Once cultures exist, they determine the criteria for leadership and thus determine who will or will not be a leader. But if cultures become dysfunctional, it is the unique function of leadership to perceive the functional and dysfunctional elements of the existing culture and to manage cultural evolution and chain in such a way that the group can survive in a changing environment. (p. 15)

Beyond Values-Driven, a fundamental characteristic of successful ethical organizational culture is leadership. Leadership drives the building and sustaining of an ethical culture through "tone at the top." Effective leadership exhibits exemplary ethical judgment and decision-making that employees notice and emulate.

Effective leaders lead effective organizations. "The bottom line for leaders is that if they do not become conscious of the cultures in which they are imbedded, those cultures will manage them. Cultural understanding is desirable for all of us, but it is essential to leaders if they are to lead" (Schein 1992, p 15). Effective leaders ''talk the talk'' and ''walk the walk" in exemplary business organizations. In an ethical organization Leadership Effectiveness, starts at the top, is conveyed by example and demands reciprocity of ethical behavior. It requires that leaders possess the wherewithal to moderate behavior thereby changing the core cultural values, if called upon during a time of crisis.

An ethical business culture espouses a holistic approach when identifying constituents in its sphere of influence. This includes employees, customers, suppliers, owners/investors, the community, competitors, and the environment. Balancing the wants and needs of these stakeholders exposes a tension that is ongoing and challenging. According to Goodpaster (2010), "corporate responsibility rests upon a fiduciary obligation to stockholders, shareholders, or owners, to be sure, but this responsibility is *provisional*. It is limited by other obligations: to employees, to customers, to suppliers, to local community—and even to the environment" (p. 741).

Our model, supportive of stakeholder theory, provides a framework by which an organization can foster a discussion on the role of various stakeholders. It demonstrates how the organization will interact with them. It reinforces the notion that the purpose of business is to service the community of stakeholders. It is not restricted by or defined by stockholder needs.

The institutionalization of an organization's mission, vision, and values is critical in fostering an ethical operational environment. Within this paradigm employees are motivated and compelled to do what is right, not what is easy. Decisions are focused on Long-term Perspectives encompassing sustainability, not on the potentiality of short-term loss. Effective ethical business culture evolves within the milieu of aligned stated and practiced values working symbiotically with internal processes and functions that determines how an organization hires, fires, rewards, compensates, promotes, trains, and communicates with its employees. The characteristic Process Integrity describes the institutionalization of the company's mission throughout its business functions. Numerous challenges exist, including establishing desired behavior standards and aligning the systems to encourage behavior and monitoring behavior. Key to this theme is the importance of reinforcing company values within every-day operations. There is a need to focus attention on the necessity for alignment of processes to mediate confusion and for transparent decision-making by the people closest to the issues.

The Long-term Perspective involves balancing between the short- and the long-term. It means not doing things in the short-term that create harm in the long-term. The Long-term Perspective is the characteristic that most imbibes its meaning from each of the other characteristics. Leadership is a key element, focusing on leadership's ability to sustain an organization. It emulates the goal to achieve common good for the "community" of stakeholders and redefines

the purpose of business. Through these interactions, the organization's success in achieving its long-term objectives is based on the ability to manage its operational culture. This impacts how things are done within the organization day-to-day, year-to-year. Holding it all together are the corporate values and their purpose in defining the value systems that characterize the company's processes and outwardly exhibited behavior.

Business organizations are like corn populations. They are uniquely different from one another owing to the distinctive combination of values that define them. Corn geneticists have long been successful in exploiting genetic variability in indigenous corn populations to effect continuous improvement of agronomic traits and performance (Troyer 2006). Each population owes its uniqueness and subsequent improvement to the random recombination of the four basic building blocks of DNA, the nucleotides: adenine, quinine, thiamine, and cytosine and the preservation of gene frequencies within the populations. The specificity expressed in each population results in a range of phenotypic and genotypic behavior. Values, like DNA, instill a level of predictability and a constant reinforcement of those values results in expressed behavior through and expected from its employees.

A holistic interpretation of the four stages of the research presented requires the aid of the picture in Fig. 4. Based on the results of this study, ethical business culture operates systemically and is revealed when viewed through a wide-angle zoom lens (the EBCS) that begins to capture an organization's inner workings. In Fig. 4, the left horizontal axis represents the Level of Specificity or the amount of known information about an organization. Organizational models of ethical culture based on the five characteristics are represented within the pyramid. Conceptually at the pyramid's pinnacle, 30,000 ft. level (not identified), are societal values that influence behavior at the individual and organizational levels. At this level of specificity little detail can be ascertained about the individual nature of organizations that inhabit the boundaries defined by societal values.

The Idealized model (Fig. 3) illustrated at the 6,000 ft. level of specificity identifies the idealized organization. When assessing an organization's inner workings at this level of specificity an individual has available the smallest amount of information with which to assess the ethical culture of the organization. Assessment identifies perceived values from pooled results with a minimally distributed range of responses skewed to the more favorable responses. The ideal organization is a minimalized entity with insufficient identifiable references that represents a perspective void of tangible input. There is a dearth of specific information resulting in diminished clarity and appreciation of the operational functionality of the Leadership Effectiveness, Stakeholder Balance, Process Integrity, and Long-term Perspective characteristics of ethical culture. At this level of complexity the data are best represented by a model defined by its stated values (Values-Driven) and which is predictive of the practiced values represented by the codependent relationship with a business' operational ethical culture. All of the datasets related to the EBCS demonstrate statistical fit with the Idealized model.

While the Idealized model clearly identifies the variables Values-Driven and OEBC, only six of the ten items that comprise the EBCS contribute to the model. However, the six items represent all five of the original characteristics identified in the Hypothesized model.

At the 600 ft. level, specificity of information increases as does the complexity of the model of ethical culture. The Generalized model (Fig. 2) originates from the confluence of many individual responses to the ten items of the EBCS. Remembering that 70 % of respondents had four plus years of work experience, respondents drew on experiences and specificity of information related to many companies. At this level of specificity a critical mass of information with sufficient variability is available. It brings into focus clarity in resolution, a detail and complexity to elucidate the five characteristics of ethical business culture representative of the Hypothesized model. Each of the items load onto the characteristics as hypothesized.

The "devil is in the details"—through small details complexity is revealed. Business operations either succeed or fail owing to the complexity of the details. Based on the results of our four studies we hypothesized that unique models of ethical culture exist for each individual organization and that business organizations in actuality have uniquely measurable ethical cultures based on varying intensities of interactions assessed through the five characteristics of ethical culture measured using the EBCS. This is represented by the Individualized models depicted at the base of the pyramid (the 6 ft. level of specificity) in Fig. 4.

Implications and Recommendations for Research and Practice

When there is a concerted effort to build and sustain an ethical business climate, success depends on a systemic approach involving all levels of employees and managers within an organization, from the C-suite executives down to all job functions. However, when it comes to building and sustaining ethical business culture, turnkey players are human resource (HR) personnel (Ardichvili and Jondle 2009).

We hope that the construct and the EBCS, developed as a result of this study, can be used by HR practitioners in business organizations. Instruments for assessment of dimensions of organizational cultures are often used by HR

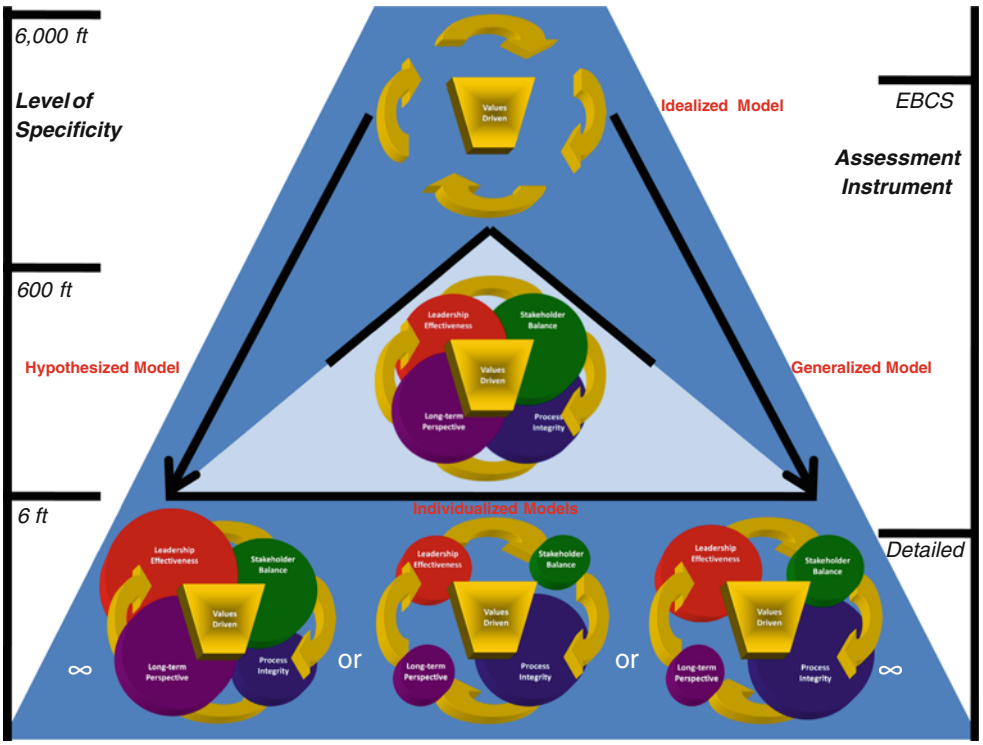


Fig. 4 Identifying ethical business culture at varying levels of specificity

or OD consultants at the needs assessment and feedback stages of their interventions. Our observation, based on our own consulting experience, is that in recent years a growing number of client organizations are not satisfied with general measures of organizational culture, and demand that the overall assessment measures are supplemented by more specific questions, focused on issues of ethics. The validated and parsimonious set of questions identified in our study, will serve the needs of these clients well. The survey instrument can be also used as part of the needs assessment stage when HR practitioners are asked to develop ethics training programs for business organizations. The responses to the EBCS will help to pinpoint areas, where additional training is needed. At the same time, as is often the case, training is not always the answer, since problems are often rooted deeper and require interventions, focused on culture change. Therefore, the results of the assessment, based on the utilization of this instrument, can be also used in identifying the needed interventions or areas for further, more in-depth analysis, utilizing qualitative methods, including focus groups, interviews, and ethnographic observations.

As shown by the above example, the survey instrument developed in this study is limited in its affordances. It allows the detection of problems, zeroing in on specific parts of the culture that need to be changed. However, it does not provide in-depth information on sources of problems and specific circumstances, under which the problems were created and perpetuated. Therefore, the instrument should be treated as an easy to use tool for first-stage detection of problems. Any serious organization change intervention will require more in-depth needs assessment and feedback procedures, involving participation and cooperation of organizational stakeholders.

A number of implications for further research can be formulated as well. The first implication is the need for continued testing and refinement of the constructs and the instrument itself. While our initial stages of the study utilized sufficiently large samples of MBA students, our testing in business organizations was so far limited to one single organization. An obvious implication is the need for testing of the instrument in a variety of business organizations, differing in size, industry, and geographic location. Another future research direction is to expand the study by utilizing outcome measures in an attempt to determine whether the instrument has the power to detect correlations between certain desirable characteristics of ethical organizational cultures with financial and operational metrics.

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