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The Social and Organizational Psychology of Compliance: How Organizational Culture Impacts on (Un)ethical Behavior

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Abstract: In psychological theory and research, compliance is generally seen as the most superficial and weakest form of behavioral adaptation. The current contribution examines how the social context of work – the organizational culture – can be organized to stimulate ethical business conduct. By reviewing social psychological theory and research, we illustrate how an ethical culture can be developed and maintained through ethical leadership and by mainstreaming ethics into existing business models. This is markedly different from more common legal approaches. It requires that a commitment to ethical business conduct is visible from the tone at the top, that organizational leaders "walk the talk" on the work floor, and that this matches the implicit messages that organizational members receive on a day-to-day basis about what really matters and what should be prioritized. Attempts to increase rule compliance are bound to fail when organizational incentives and rewards focus on individual bottom-line achievement regardless of how this is done. Empirical evidence supports the claim that organizational culture is an important factor in stimulating ethical conduct. By creating an ethical culture, organizations develop an "ethical mindset" in organizational members, which helps them not only to understand and internalize existing guidelines in their current work but also to apply the "spirit" of these guidelines to new dilemmas and emerging situations. This makes investing in an ethical culture a sustainable business solution.

43.1 COMPLIANCE IN SOCIAL AND ORGANIZATIONAL PSYCHOLOGY

In psychological theory and research, the notion of "compliance" features as a potential outcome of attempts to influence people's behaviors (Cialdini and Goldstein, 2004). However, in the range of possibilities, "compliance" emerges as the *weakest form of behavioral adaptation*, instead of being considered a desired end-state. In psychology, the term compliance is used to indicate people acting in line with requirements, even when they don't agree or don't understand why this is important. Such behavioral adaptation can be elicited by social pressure (from leadership or peers), threat of sanctions, or by decreasing the opportunity to deviate from an established course of action (e.g., due to external restrictions or nudges). While at first sight this may seem a perfectly acceptable outcome ("never mind why, just do it"), in psychological theory and research, compliance is generally seen as the most superficial and weakest form of behavioral control, as it relies on continued monitoring and consistent implementation of sanctions and rewards (Raven, 1992; Tyler and Blader, 2005).

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The chances of people "truly" adapting their behavior – even when nobody is watching, or in situations that are unforeseen – are much larger when they are *convinced* of the relevance and importance of behavioral guidelines ("conversion"), and is strongest when they incorporate these guidelines into their sense of *identity*, as indicating a key aspect of who they are and where they belong ("internalization"). This is also acknowledged in modern theories of effective leadership in organizations (Haslam, Reicher, and Platow, 2011). Thus, compliance with important guidelines will be most robust when these guidelines also engage with and define people's sense of self and social identity, while compliance is most fragile or even unlikely when the intended guidelines go against (locally) shared values and important self-views (Ellemers, 2017; Ellemers and Van der Toorn, 2015).

The pervasive influence of the social context is often ignored when inferring that those who fail to comply with explicit regulations must have a "deviant personality" or "lack a moral compass." Individual behavior is much more influenced by our social context (e.g., social norms) and the broader system in which we operate (e.g., implicit incentives) than many people think (Haslam and Ellemers, 2011; Kish-Gephart, Harrison, and Treviño, 2010; Treviño and Nelson, 2011; Van Steenbergen et al., 2019). An egoistic organizational culture, for example, was found to overrule personal norms of public and private sector employees regarding corruption, and enhanced the likelihood that those employees would accept bribes in exchange for preferential treatment (Gorsira et al., 2018).

Social and organizational psychology explicitly considers such social factors and studies how these influence human behavior in an organizational context. Research in this area examines how individuals are directly or indirectly, consciously or subconsciously, influenced by others in the organization, such as fellow team members, their manager, the CEO, or the broader organizational culture. This approach offers a valuable perspective from which to study corporate compliance. It can provide insight into the conditions under which individuals in organizations are inclined to obey, bend, or break the rules that apply to them – regardless of their character or personal values. The current contribution aims to examine how the social context of work – the organizational culture in particular – can be organized to stimulate ethical business conduct.

43.2 PREVENTING UNETHICAL BEHAVIOR AT WORK

Unethical behavior in a work context is defined as "any organizational member action that violates widely accepted (societal) moral norms" (Kish-Gephart et al., 2010: 2). Importantly, this definition does not rely on what is specified by the law or corporate conduct codes but refers to the violation of widely accepted (societal) moral norms. As such, it excludes mildly negative workplace behaviors such as gossiping or tardiness; even if these may deviate from organizational rules or codes of conduct, such behaviors do not violate widely accepted moral norms in society. This definition does include behaviors such as theft, sabotage, fraud, sexual harassment, lying to customers, and misrepresentation of information, *regardless of whether* these behaviors were specified in the organizational code of conduct or the law. This means that certain behaviors can be considered unethical even when not formally forbidden in organizational policy or by law.

The distinction and overlap between illegal and unethical behavior is illustrated in the Venn diagram in Figure 43.1 (drafted after Treviño and Nelson, 2011). The overlapping area in the middle concerns behavior that is both illegal and unethical, such as stealing money from the organization. The left category indicates illegal behavior, which is not

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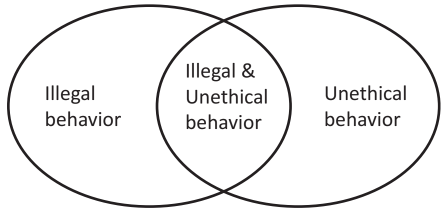

FIGURE 43.1 The partly overlapping categories of illegal and unethical behavior
Source: Adapted from Treviño and Nelson, 2011.

generally considered unethical, such as breaking the legal speed limit by 10 miles per hour in a company car. On the right are cases that are not illegal but generally considered unethical. Examples are the selling of financial products that are not appropriate to the customer's situation, giving or receiving large gifts to influence business relationships, or having sexual relationships with lower-ranked employees in the organization. These types of behavior are in many cases not illegal and, depending on the company, often not specifically prohibited in the corporate code. Nevertheless, there is widespread agreement in society that these types of behavior are "wrong" and morally objectionable (i.e., unethical; Kish-Gephart et al., 2010). Public scandals about corporate misconduct frequently concern the latter category.

In response to publicized incidents of misconduct, the standard response seems to be to extend or adjust legal rules and company regulations, and to monitor that everyone complies with these guidelines. In theory, such efforts to increase the overlap between what is considered unethical and what is defined as illegal reduces the ambiguity in what is considered acceptable behavior. It can also empower supervisors and regulators to enforce this by punishing those individuals who violate these guidelines. In practice, however, this raises concerns about "overregulation" and can have unintended side effects. As a result, some sectors now suffer from disproportionate costs and efforts invested in the process of monitoring rule adherence, enforcing, and sanctioning compliance, to the extent that this can undermine the time and resources available for core activities. Further, such regulatory efforts always run behind changing realities. Moreover, even if people can be forced to adhere to the *letter* of the law, this will not necessarily make them more mindful of the *spirit* of the law when new ethical dilemmas emerge (Tyler and Blader, 2005).

To complement existing perspectives, we propose to incorporate insights from social and organizational psychology, and to identify factors that contribute to an *ethical culture* within organizations. There are three reasons why this is important. First, rules and legal requirements alone are typically ineffective in steering human behavior in organizations as is the threat of fines or sanctions when breaking them (Feldman, 2018; Fehr and Rockenbach, 2003; FSB, 2018; Tenbrunsel and Messick, 1999). In fact, such attempts can even have counterproductive effects. Apart from anything else, this is because when sanctions are communicated as a means of deterring people from undesired behaviors, recipients of such communication feel distrusted, which undermines their willingness to follow these rules and actually reduces compliance (Mooijman et al., 2017). Second, the world is constantly evolving (e.g., as a result of new technologies, new ways of working, etc.), and we can never fully foresee which rules will steer humans in "the right" direction. Even societal norms about what is "wrong" and what is "the right thing to do" evolve. As a result, rule- and policymakers will oftentimes be too late, that is, act after unethical behavior has already taken place. Third, we argue that a legal response triggers a "legal mindset" in organizational members. This is known to invite moral disengagement, which undermines ethical reasoning in the organization (Moore, 2015). This can be the result of any measure that stimulates employees and managers to evaluate their behavior against regulations (Is it prohibited?), rather than against their individual or the group's morals and norms (Is it the right thing to do under these circumstances? And is it right for all stakeholders?).

This is why there is added value in examining factors that enhance or undermine ethical behavior, in addition to the question of whether adherence to relevant guidelines and regulations can be legally enforced. Theory in social and organizational psychology can help define characteristics of an "ethical culture" at work, and research evidence reveals how such a culture can be achieved and whether this helps prevent the emergence of unethical behavior.

43.3 THE SOCIAL NATURE OF ETHICAL GUIDELINES

Our analysis focuses on the internalization of shared norms and values, and is based on insights from Social Identity Theory (Tajfel and Turner, 1979; see also Ellemers and Haslam, 2011). This is one of the most influential theories in social and organizational psychology and explicitly considers people as "group animals" who define themselves in terms of relevant group characteristics, such as the political party they support, their profession, or the organization for which they work. Social Identity Theory examines the situational variations in identity aspects that come to the fore in different social contexts, and that guide individual behavioral choices. To decide what are acceptable behaviors in everyday work practice, people rely on the formal and informal guidelines they receive. These are derived from behaviors they observe in others as well as from implicit signals about relevant priorities and choices that tend to be rewarded. Such implicit observations define shared guidelines about "right" versus "wrong" behavior in the workplace. Understanding and acting in accordance with such guidelines helps workers communicate their awareness of what it takes to be a "good" professional and a "proper" member of the organization. Endorsing these norms secures inclusion and respect from others at work, and over time this can become internalized as defining people's work-related identity. In this way, social contexts and shared norms influence what we think is acceptable behavior in the workplace – beyond mere compliance. Importantly, these norms also prescribe which situations require moral reasoning (rather than being guided by business or legal considerations), and which stakeholders' outcomes should be taken into account (shareholders, employees, customers, the planet), to define priorities or weigh the implications of relevant decisions.

These social guidelines that indicate what is considered (un)acceptable behavior define the ethical *culture* in the workplace. This follows definitions of organizational culture as capturing "the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments" (Schein, 1996: 236). In short, we use the term culture to indicate people's shared views of "the way things are done around here" (Deal and Kennedy, 1982). This includes relatively local and concrete prescriptions of specific behaviors in relation to particular tasks or responsibilities at work, which some scholars refer to as the organizational or team "climate" (Victor and Cullen, 1988).

Acknowledging the influence of social contextual factors in this way has important implications for how we approach and sanction instances of (un)ethical behavior at work as

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well as the steps we might take to prevent this. Instead of focusing us on individuals and their deficiencies as "rotten apples" to be removed from the organization, this prompts us to examine which organizational structures, practices, and incentives may contribute to the emergence of "corrupting barrels" (Kish-Gephart, Harrison, and Treviño, 2010). Yet, investigations of misconduct (e.g., in the financial sector) often overlook the influence of these "corrupting barrels," while they keep on identifying and removing "rotten apples" (Scholten and Ellemers, 2016). This matches legal conceptions which aim to assign responsibility for misconduct to specific individuals but deprive organizations of the opportunity to examine and learn from broader circumstances that invited or condoned behaviors that were bound to cause problems, and allows for the development of "toxic cultures" (Van Rooij and Fine, 2018).

This happened at Wells Fargo, an American bank where employees were expected to achieve impossible sales targets, upon threat of losing their job (Reckard, 2013). This prompted them to do whatever was necessary to meet performance goals, including the opening of bank accounts without customer consent, and assigning unwanted credit cards to people who couldn't afford the fees. Another famous case is that of Kweku Adoboli, a "rogue trader" at Swiss investment bank UBS, who served a prison sentence for financial bookkeeping fraud. For many years Adoboli was a valued employee, who was rewarded with promotions and bonuses for the millions of earnings he realized for his bank. He was portrayed as "a rotten apple in an otherwise clean industry," but one of his colleagues said that everyone knew he was the man to turn to when you had screwed up: "We didn't know how he did it, but we didn't want to know" (Fortado, 2015). This case and many similar events illustrate that finding root causes of misconduct and preventing unethical behavior require a broader consideration of possible problems, including the behavior of colleagues and leaders that shapes the ethical culture characterizing the organization.

43.4 MONITORING ORGANIZATIONAL CULTURES TO PREVENT UNETHICAL BEHAVIOR

> Culture in financial services is widely accepted as a key root cause of the major conduct failings that have occurred within the industry in recent history, causing harm to both consumers and markets.
>
> — Jonathan Davidson, Financial Conduct Authority (FCA, 2018: 3).

The "culture" is often regarded as a root cause of unethical behavior in an organization or an entire sector. This was the case, for instance, in the Netherlands, where ING banking was sanctioned with the largest fine in Dutch history, €775,000,000, for doing too little to prevent money laundering. Afterwards ING, embodied by CEO Ralph Hamers, was accused of lacking "morals" and having a "commercial culture" in which the achievement of financial targets prevailed over the performance of background checks on clients (Arnold, 2018).

From a research perspective, there seems to be truth to the claim that organizational culture is an important factor in stimulating or preventing unethical behavior (for an overview, see Mayer, Kuenzi, and Greenbaum, 2010). A comparative analysis of high-profile corporate scandals in the United States (Enron, WorldCom, and HealthSouth) and Europe (Parmalat, Royal Ahold, and Vivendi Universal) emphasizes the influence of a "poor ethical climate" in these organizations, alongside external factors such as market developments, as well as political, legal, and regulatory laxness (Soltani, 2014). Other case studies of fraud also point to the role of corporate culture in creating the incentives, opportunities, and rationalizations that together constitute the three elements of the classic "fraud triangle" (Schuchter and Levi, 2016). For example, the results of a recent study show that the corporate culture of banks could account for risk-taking behavior of employees within those banks. Banks in which the culture was characterized by aggressive competition engaged in riskier lending practices (higher approval rate, lower borrower quality, fewer covenant requirements). These short-term performance goals and the behaviors they elicit ultimately harmed the organization as well as society, as such banks were found to have larger loan losses and contributed to systemic risk. The opposite pattern was found for banks whose culture was characterized by control and safety (Nguyen, Nguyen, and Sila, 2019).

In recent years, researchers have increasingly focused on the culture in the workplace as an explanatory characteristic that accounts for individual and organizational outcomes. Different scholars have used different labels and measures, such as culture of compliance, (Oded, 2017), or ethical culture (Kaptein, 2008a). However, the most well-known and widely used tool is the Ethical Climate Questionnaire (Cullen, Victor, and Bronson, 1993). This refers to the set of shared perceptions of procedures and policies, both formal and informal, which shape expectations for ethical behavior in the organization (Cullen et al., 1993). Three important dimensions can be distinguished in this measure that capture how ethical issues are dealt with (Ellemers, 2017; Martin and Cullen, 2006; Simha and Cullen, 2012). Scoring high on the *instrumental* dimension means that employees perceive that people in their company are primarily guided by personal self-interest (i.e., "What's in it for me?"). They have an individualistic and independent way of dealing with ethical issues in the organization and feel that decisions should be made solely in order to serve the economic interests of the organization (profitability, efficiency) or to provide personal benefits (Martin and Cullen, 2006; Pagliaro et al., 2018). This type of culture is indicated when employees express agreement with statements such as "People around here protect their own interest above other considerations." The *caring* dimension indicates that individuals perceive that decisions are and should be based on an overarching concern for the well-being of others within and outside the organization, such as coworkers, customers, or the public (e.g., as indicated by high agreement with statements such as "People are actively concerned about each other's interests."). The *principles* dimension refers to the value that is attached to working in accordance with company rules and codes and legal guidelines and professional standards (e.g., "Successful people in this company go by the book."; see also Ellemers, 2017). The vast majority of empirical research shows that high scores on the instrumental dimension go hand in hand with behavior such as lying, stealing, cheating, falsifying reports, harmful behavior toward customers, misreporting outcomes, acceptance of bribes, and other forms of corruption and fraud, whereas the caring and the principles dimensions tend to be negatively associated with these outcomes (Gorsira et al., 2018; Kaptein, 2011; Mayer et al., 2010; Pagliaro et al., 2018; Peterson, 2002; Simha and Cullen, 2012).[1]

Rather than examining the independent effects of these separate dimensions of culture, we propose that ethical culture can be best diagnosed by examining these three dimensions in coherence (see also Ellemers, 2017). When employees score low on the instrumental dimension and high on the caring and the principles dimensions, we consider this as indicating an "ethical" culture. In such an organization, concerns with employee self-interests and

[1] See also Van Steenbergen, Elianne F., and Naomi Ellemers, "On the Rightness of Rewarding B While Hoping for B: Promoting an Ethical Culture in the Financial Sector," unpublished data.

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company outcomes are balanced by concerns for employee and customer relations, as well as professional rules and behavioral codes. Such an ethical culture stimulates employees and managers to evaluate whether decisions that seem right from an individualistic and economic point of view are also right in terms of compliance with rules and right for internal and external stakeholders such as the employees, customers, the general public, and even the planet.

43.5 THE IMPORTANCE OF ETHICAL LEADERSHIP

The insights and study results summarized so far speak to the dangers of "standard business practices" in many businesses as well as public organizations. The broad use of performance incentives that fuels the competition between individual workers to achieve set targets and ongoing efforts to increase the efficiency of work procedures implicitly communicates that it is less important to care for the interests of others or to invest time in following relevant prescriptions and guidelines. In such an organizational climate, simply emphasizing the importance of rule adherence is not enough. To stimulate an ethical culture in which workers become convinced of the importance of rule compliance and internalize this into their self-views as good organizational members, it is essential that top management, senior management, and line management demonstrate ethical leadership (Brown, Treviño, and Harrison, 2005; Garratt, 2010; Treviño and Nelson, 2011). Social Learning Theory (Bandura, 1977, 1986) helps us understand why.

Through the process of role modeling, individuals implicitly learn what is "really" important and appropriate (vs. less important or inappropriate) by observing the behavior of others. In an organizational context, individuals pay most attention to higher-ranked individuals because they embody important organizational goals and reveal how to be successful in the organization (Haslam et al., 2011). Leaders at all levels in the organization are generally regarded in this way by their subordinates, and hence function as legitimate models for normative behavior. When leaders emphasize performance achievement above all else, only express concern for the achievement of outcomes that serve their own self-interest, or are known to bend the rules they have set for those placed below them, this erodes the perceived importance of ethical concerns in the organization. Ethical leadership is displayed by leaders who clearly signal the priority of adhering to shared moral values – even when this is costly. They can do this for, instance, by indicating when and why they prioritize ethical concerns in their own decision-making (e.g., by taking responsibility for a product that did not meet quality standards, or investing in the improvement of production standards). Demonstrating such exemplary behavior instead of just paying lip service to ethical guidelines signals the true importance of rule compliance and makes it more likely that employees will do this too (Mayer et al., 2010).

Besides functioning as role-models in making their own strategic choices, there is a second process by which leaders communicate the ethical climate to lower-ranked employees. By choosing whom to punish and whom to reward, leaders also signal what is truly important to be valued as an organizational member and to get ahead at work. Take the employee who realizes high revenues by using a rather aggressive sales technique, or outperforms her co-workers by "stealing" their customers from them. Is she receiving compliments for her performance, or maybe even a promotion? Or is she reprimanded for acting irresponsibly toward clients and being disloyal to others in her team? Observing how people in the organization are generally treated is a much more powerful source of information than consulting formal policies. Such observations of different behaviors and their consequences communicate and maintain the organizational culture, as this reveals the extent to which leadership cares for the achievement of results and financial outcomes, and whether this happens irrespectively of how these were obtained (Van Yperen, Hamstra, and Van der Klauw, 2011). Importantly, individuals learn not only from their own experiences but also by observing their colleagues and what happens to them (vicarious learning, Bandura, 1977, 1986; Mayer et al., 2010). This means that an employee learns that the use of aggressive sales techniques is okay – and maybe even the way to go – from seeing that a colleague gets promoted after using them.

Building on these insights from Social Learning Theory, Brown et al. (2005) conceptualize ethical leadership as consisting of two main components. The first is the moral person of the leader him/herself, whether they display integrity, concern for others, justice, and trustworthiness. The second is the moral manager component. This refers to the extent to which the leader communicates and emphasizes ethical standards; for instance, the way he or she rewards or punishes ethical and unethical behavior. Ethical leadership is defined as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision making" (Brown et al., 2005: 120). In other words, an ethical leader must *be* an ethical person and also *act* ethically in the leadership that he or she displays.

Brown et al. (2005) developed a measure to assess how employees rate their leaders, with statements such as "he/she can be trusted" and "he/she sets an example of how to do things the right way in terms of ethics." When employees rated their leader as more ethical on this measure, they were more willing to report problems to management, contributing to the resolution of these problems resulting in rule compliance (Brown et al., 2005). Ethical leadership – leaders' day-to-day behavior – thus plays a major role in creating an ethical culture (Stringer, 2002). Mayer et al. (2010) showed that ethical leadership relates to a more ethical culture and hence to less employee misconduct in a sample of 1,525 employees and their managers, working in 300 units in different organizations. Recently, we examined similar issues in a sample of more than 4,000 employees working in 18 organizations in the financial sector. Here, we examined how employees perceived the leadership they received from their board and their line management.[2] Specifically, we zeroed in on leaders' ethical behavior in regard to the tension between acting in the clients' interest (treating customers fairly) or in commercial interests, an area of tension in business in general and in finance especially (Ring et al., 2016). When employees felt that the board, line management, and the organization's reward system valued commercial interests over treating customers fairly, they perceived the organizational culture as less ethical and reported more instances of unethical behavior.[3] This research attesting to the central role of leadership and social learning at all levels in establishing and maintaining an ethical culture in the organization is relevant to understanding why so many attempts to enhance ethical behavior and rule compliance have failed.

43.6 ESTABLISHING AN ETHICAL CULTURE

Codes of conduct have become ubiquitous in organizations, yet day-to-day practices often deviate from what these codes prescribe and they are often little more than a façade. In line

[2] Ibid.

[3] Ibid. See also Mayer et al., 2010.

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with this point, the well-known meta-analytic study by Kish-Gephart et al. (2010), covering more than thirty years of research, showed that merely having a code of conduct in place does not help to reduce unethical behavior. Only when employees are made to feel that they and others in the organization are held responsible for code compliance does the presence of such a code engender less unethical behavior. Based on this research, it makes sense to move beyond the question of whether or not a code of conduct exists. Instead, there is added value in considering how such codes can be effectively enforced and internalized to shape behavior in the workplace.

In this context, interesting questions are whether and how the introduction of a code of conduct can help to create an ethical culture. A recent experiment among students and academic staff of a university revealed that the use of a positive tone made the code easier to learn for participants, and hence increased familiarity with the code. In addition, participants rated top management's commitment to the code as higher when it was made clear that they had signed the code themselves (Stöber, Kotzian, and Weißenberger, 2019). This again points to the central role of leadership and role modeling in implementing ethical behavior. In sum, although this is an ongoing area of research, available findings suggest that a code of conduct is more effective as a tool to reduce unethical behavior when it is clearly "alive" in the organization and seems sincere in communicating values that are endorsed by the leadership and that are enforced in terms of the consequences of (non)adherence. In sum, the effectiveness of a code depends not only on its content but also on how it is embedded in the culture of the organization. This can be achieved through its explicit introduction, its integration in the core organizational goals and processes of the organization, its visible internalization into the hearts and minds of management and employees, and the institutionalization of its maintenance and monitoring of effectiveness (Kaptein, 2008b).

Accordingly, to establish and maintain an ethical culture, stimulate rule compliance, and prevent misbehavior in organizations, it is not enough to have in place formal descriptions of (un)acceptable conduct. In addition, key individuals in the organization need to embody and visibly enact the importance of these norms. This happens also by identifying, correcting, and communicating about small transgressions, even before "evidence" builds up that would have legal implications. Attending to relatively low-key issues, doing this immediately and visibly, also prevents these from being seen as isolated incidents that are attributed to the flawed character of specific individuals. Instead, inviting the conversation about what is acceptable and unacceptable behavior in the workplace allows for the examination of recurring patterns and helps prevent the development of a sequence of increasingly problematic behaviors.

This focus on specifying and communicating the behaviors that characterize a "good organizational member" is markedly different from more common legal approaches. It requires that a commitment to ethical business conduct is visible from the tone at the top, that organizational leaders also "walk the talk" on the work floor, and that this matches the implicit messages that organizational members receive on a day-to-day basis about what really matters and what should be prioritized. This requires leaders who have the courage to visibly impose sanctions on those who breach ethics guidelines – regardless of how successful or important they are (Oded, 2017). It also requires ongoing and explicit debate about priorities and their implications, as well as joint decision-making about emerging dilemmas due to new business or product developments. This in turn can foster employees' trust in leaders and more open communication between leaders and employees. In this context, talking about difficult decisions and personal failures is a sign not of weakness but of strength, and leaders only fortify their position and are awarded respect when they do this first. Adopting such an approach is the only way to avoid the slippery slope in which innocent bystanders start rationalizing fraudulent behavior and over time become guilty perpetrators themselves (Zyglipodopoulos and Fleming, 2008).

In this way, having an ethical culture functions as a *social correction mechanism* in an organization. There will always be individuals who misbehave or come up with ways to bend the rules, be it the colleague who makes sexual jokes at an office party, or the one who proposes a "quick fix" to a serious problem. What matters, however, is that *others* will feel safe to confront and correct that individual when small transgressions occur. Speaking up and holding such behavior against agreed-upon behavioral standards, instead of remaining silent or relegating such experiences to gossip, helps to prevent small transgressions from growing bigger over time (Welsh et al., 2015). When disapproval of small transgressions is voiced by others – that is, when an ethical culture is in place – social norms are upheld and reinforced, making future transgressions less likely. This way of "mainstreaming" ethics, rather than relegating them to a specific quality assurance or compliance department, makes ethical conduct the responsibility of all organizational members, and allows them to embrace, internalize, and even own and take pride in upholding important guidelines, instead of merely "complying" with them because they are forced to do so.

Of course, this is only possible when systems, practices, and reward systems allow organizational members to consider ethical concerns, instead of forcing them to focus on (financial) performance alone (Kish-Gephart et al., 2010; Mayer et al., 2010). Attempts to increase rule compliance are bound to fail when all organizational incentives and rewards focus on individual bottom-line achievement regardless of how this is done. Those who aim to implement a more ethical culture are only able to do so when they are willing to reconsider and modify "standard business practices" that undermine this ambition.

43.7 CONCLUSION

When unethical behavior occurs in business, there is often a call to punish those who misbehaved and to adapt or augment existing legal requirements and company policies. This contribution does not suggest that legal measures to steer humans in "the right direction" are unimportant. We do, however, emphasize the pervasive influence of social contextual factors – and the organizational culture in particular – that can invite unethical behavior (when the culture prioritizes instrumental outcomes above all else) or support ethical behavior and rule compliance (when the culture rewards care for others and adherence to important guidelines). The psychological theory and research we reviewed further illustrate how an ethical culture can be developed and maintained through ethical leadership and by mainstreaming ethics into existing business models.

By focusing on creating an ethical culture, the organization can develop an "ethical mindset" in organizational members, which helps them to understand and internalize existing guidelines as well as to apply the "spirit" of these guidelines to new dilemmas and emerging situations. This offers a powerful source of intrinsic motivation. Whereas procedures that aim for "mere compliance" with the rules only induce employees to ask themselves "Is this allowed?", an ethical culture will stimulate employees to also consider whether *it is the right thing to do*. Asking such questions stimulates employees to think for themselves, to discuss with others, to voice the dilemmas they encounter to their superiors, and to speak up when they observe transgressions in others.

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Achieving such a state of "meaningful compliance" requires a different compliance strategy. Rather than merely stating *what* the rules are, and communicating that specific behavior is expected of employees, there is added value in explaining to employees *why* the rules are important and how they relate to key organizational values (Oded, 2017). Such a demonstration of ethical leadership is possible when behavioral guidelines connect to corporate purpose. In a context of aggressive and global competition, this raises the important question of whether "doing good" in the ethical domain is compatible with "doing well" in terms of commercial success. Here we note that traditional conceptions of an inherent tension between business ethics and a firm's economic performance are being reconsidered (Eisenbeiss, Van Knippenberg, and Fahrbach, 2015). In fact, some argue that paying attention to ethics and responsible business conduct nowadays is necessary to attract and retain investors, employees, and customers. This is illustrated by the results from an examination of thirty-two German companies from various industries, which revealed that ethical CEO leadership related to a more ethical culture and, through this, to higher firm performance, *provided that* there also was a strong corporate ethics program in place (Eisenbeiss et al., 2015). Indeed, managers increasingly recognize the positive long-term benefit that a reputation for ethics can bring to doing business (Treviño and Nelson, 2011). That is a hopeful note to conclude on, both for ethics *and* for business.

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