



## Mini Review

# Building Ethical Climate in a Foreign Country: A Dilemma for the Foreign Multinationals

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### Abstract

Ethical climate of an organization gets reflected in the workplace behavior, attitudes and shared perceptions of the members of the organization who are firmly embedded in the national culture. Organizations crossing boundaries to establish their subsidiaries in foreign land are continuously engaged in the balancing act of their own values and principles with that of the business environment of the host country. At the same time, they are competing with the already protected and operating companies of the host country. The purpose of this paper is to enable the organizations to develop an understanding in building Ethical Climate in their organizations in a foreign country.

### Introduction

Ethical Climate (EC) of an organization represents the DNA of that organization. Having its theoretical underpinning in sociology and moral science, EC ascertains an employee's decision while facing ethical dilemma. The decisions undertaken project the key philosophy governing the organization. Ethical work climate, thus, represents a set of shared formal and informal perceptions of procedures and policies, which shape expectations for ethical behavior (Victor & Cullen, 1988).

With the increase in number of legal and fraudulent cases, EC has been drawing attention, as its impact on individuals and organizations can be subsequently felt. (Newman *et al.*, 2017). The concern related to Ethical Climate increases manifold as organizations transcend the boundaries. An understanding of the values, sociocultural norms, political will and governance practices would enable the organizations to adapt and adjust their operations to develop ethical culture. Thus, Multinational companies (henceforth MNCs) with world-wide subsidiaries need to recognize the

impact of socio-cultural values on local organizational behavior to be able to successfully transfer the know-how to various local units (Arora, 2005).

Referring to EC as an implicit indicator in the context of decision making within the organizations, (Olson, 1998), pointed that “EC provides the context in which ethical behavior and decision making occurs.”

Though, the studies on National Culture and Ethical Climate are negligible, yet there has been concrete evidence of strong correlation between National culture and Organizational Culture. The paper attempts to establish linkages between national culture, organizational culture and ethical climate. Organizational culture acts as a mediator between national culture and ethical climate of the organizations.

### **Effect of National Culture on Organizational Culture**

Hofstede (2001), Nelson and Gopalan (2003), and Nazariana *et al.* (2017) in their studies have pointed out the effect of national culture on organizational culture. Cultural norms, values and beliefs are forced on organizations through societal establishment (Dennis *et al.*, 2007; Fitzsimmons & Stamper, 2014; Gerhart, 2009; Hofstede, Hofstede, & Minkov, 2010). Culture, though, not directly visible and observable can be inferred from the values and artifacts, thus, the basic assumptions are adopted by the majority of organizational members (Hofstede, 1980; Sathe, 1985; Schein, 1999). The culture of a country acts as a glue to its nationalities as they not only share the values but also “construe knowledge and produce social behavior” (Scherer *et al.*, 2006)

Organizations are deeply embedded into a national or a society’s culture. Deal and Kennedy (1982) maintained that organizational culture is made of values, nevertheless they are as well included in their description of the business environment, heroes, rites, rituals and, cultural links. Mead and Andrews (2009) observed that, the understanding of ‘organizational culture’ is difficult as the word did not have any single conventional meaning. Many different definitions have existed over time which may consist of organizational structure and rules, values, feelings, norms as well as the organizational climate. Further, a review of literature indicates that the concepts of climate and culture have been widely accepted as a means to explain organizational behavior generally and ethical behavior specifically (Moran and Volkwein, 1992; Olson, 1998; Trevino, 1990).

Thus, organizational culture encompasses the ethical climate. Ethical Climates develop as a result of organizational policies, practices, and leadership, and exert significant influence on the ethical decision making of organizational members and their subsequent attitudes and

behavior at work (Schminke *et al.*, 2007; Simha & Cullen, 2012).

### **Correlation Between National Culture and The Organizational Culture**

A number of studies have established the correlation between national culture and organizational culture. Various researches Minkov and Hofstede (2012), Klimas (2016) pointed towards understanding the culture of people from different geographical environment. One of the key issues, often faced by the MNC’s is the influence generated by the society on managing the friction in employee-organization, Fitzsimmons & Stamper, (2014). MNC’s not only have to be wary of the host country’s national culture in building the organizational culture but also have to be cautious about the elements of one’s own cultural milieu and communicate it effectively. Taylor and Osland (2012) point out that the limited success of MNCs in transferring knowledge and paucity of research on global organizational learning can be attributed to intercultural communication. Intercultural communication is defined as, ‘symbolic process in which people from different cultures create shared meaning’ (Lustig and Koester, 1999). In an interesting study, Yeong-Hyun Kim & Short JR (2008), pointed out the differences emerging in Korean and Indian managers specifically in terms of each nationality having distinct idea regarding each other’s practices in the management of dealers, suppliers and consumers. Due to lack of understanding, intercontinental businesses are often confronted with collapse and difficulties which are attributed to insufficient indulgent of the cultural circumstances other than market conditions (Adler, 1991; Lu *et al.*, 2016).

The organizations, thus, have a task to maintain a balance between establishing their own culture and the culture of the destination country. Also, the individuals working in an organization exhibit inherent characteristic of being embedded in the culture of the society or place where they come from. There has been evidence that the people working in these organizations are firmly entrenched in their own cultural institutions and have their own norms and characteristics leading to the decision making and ethical climate of the organization.

### **Ethical Climates Help in Understanding the Ethical Behavior**

“Ethical climates are conceptualized as general and pervasive characteristics of organizations; affecting a broad range of decisions” (Victor & Cullen, 1988, p.101). The Ethical Climate Questionnaire is “simply an instrument to tap, through the perceptions of organizational participants, the ethical dimensions of organizational culture” (Victor & Cullen, 1988, p.103). EC can be implored by understanding how the employees of an organization engage in the day-to-day tasks. EC helps in establishing the process of

standardization by laying down the rules and procedures as it emerges from organizational processes transmitting managerial expectations in terms of moral behaviors and processes for ethical problems (Mayer & *et al.*, 2014) and exerts a decisive influence over attitudes and behaviors of members in the organization (Peterson, 2002; Cullen *et al.*, 2003; Tsai and Huang, 2008; Leung, 2008; Mulki *et al.*, 2006; Goldman & Tabak, 2010; DeConinck, 2011; Unal, 2012). Thus, EC helps in understanding ethical behavior of individuals as well the impact of situational and organizational context in understanding individual ethical conduct (Lewin, 1951). "Ethical climate frames the work attitudes, workplace behavior, psychological states of the employees, influencing performance outcomes at individual, group and organizational level Newman *et al.* (2017)." Representing a strong group regulation tool (Ellemers *et al.*, 2013), ethical climate becomes central to organizational life as a way to show the core values of the company both internally and externally, to promote identification and commitment with the organization, and to manage deviance (Ceschi *et al.*, 2016). EC influences the individual and organizational outcomes and behaviors (Newman *et al.*, 2017).

Researches on EC have mostly focused on understanding the variance between climate types or in terms of establishing its relationship specifically when comparing ethical climates that promote prosocial behavior with those suggesting more individualistic behavior, it emerges that the former are more strongly associated with work performance and employees' positive attitudes and behaviors (Peterson, 2002; Briggs *et al.*, 2012; Ehrhart and Raver, 2014; Mayer, 2014; Pagliaro *et al.*, 2018).

Thus, it seems crucial for organizations to understand the positive and negative consequences of different kinds of ethical climates in order (a) to avoid the associated financial and sociopsychological costs and (b) to rely on those climates that, on the contrary, may increase employees' positive relationship with the organization and positive behaviors. Murphy (1981) suggested that an "organization's ethical climate may also have an impact on the ethical behavior of individual members." The impact of socio-cultural influences quite often crosses the boundaries and have an effect on all the domains including organizational workforce

### **Role of National Culture, Organizational Culture and Ethical Climate**

An understanding of the national culture will help multinational companies to bridge the cultural gap across the countries. National culture is a collective programming of the mind which distinguishes one group from another (Hofstede 2001). Broadly we assume that national cultures produce patterned ways of thinking (Kluckhohn, 1954) as a set of shared meaning systems (Shweder *et al.*, 1984) that is

transmitted from one generation to another through the process of observation and modeling. Studies have shown that, despite their heterogeneity within a country, organizational cultures are affected by national cultures (Soeters and Schreuder, 1988; Hofstede *et al.*, 1991).

The characteristics of an organization are a reflection of the society around it. The employees working in the organization are deeply ingrained in the value and cultural norms of the society. According to Nikčević (2014), "every organization possesses its own culture, that mainly subjective to the national culture of the society in which it was formed. As national culture regulates values of organizational culture of organisations/companies operating within its context, and therefore, has substantial power on organizational culture and, in addition to organizational behavior."

Research also points that the prevailing ethical norms in companies develop from the national cultural values and customs (Ferrell and Gresham, 1985; Hunt and Vitell, 1986). Cultural background of the employees also influences the perception of EC (Herndon *et al.*, 2001). Bourne & Snead (1999) found that existence of community based micro culture potentially moderates an organization's ability to create homogeneous organizational ethical culture. Pointing towards the sociocultural environment of the organization, Victor and Cullen (1998) characterized it as having an inbuilt characteristic building the ethical climate of an organization. In a cross-cultural study, Christie *et al.* (2003) demonstrated how national culture plays a significant role on the ethical reasoning and the ethical attitudes of persons, including those in the teaching profession.

### **Conflict of Interest**

Author declares no conflict of interest with the present study.

### **Conclusion**

To conclude the intention of the paper is to provide a broad overview of the impact of national culture on to the organizational culture and subsequently to the ethical climate of the organization. The work practices differ due to geographical variance and thus the organizations need to walk on a tight rope to manage balance between their own practices with that of the destination country or the country of its establishment. The ideas for this paper are drawn and derived from the published material. The issue raised are expected to sensitize and prepare the organizations to adopt the best practices prevalent in host country aligning them with their own culture thereby creating ethical climate within their organization.

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