

# The Organizations' Psychological Environment Traits Modification When Adopting an Ethics and Compliance Program

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Ethics and compliance programs have a direct linkage to key tenets of employee behaviors. The employee behaviors are building blocks of the organizations' psychological environment traits. They are characterized by role identity, self-awareness, motivation, and misconduct. It is crucial to unravel the diversity of the perspectives of the programs to design an appropriate framework of the relationship between ethics and compliance and organizational psychology. According to Weinstein (2019), "Compliance is a fundamental pillar of any corporate operation and culture, and it should be based upon the principles of transparency, impartiality, responsibility, integrity, professionalism and ethics". While "Ethics goes beyond what the law requires. It involves doing the right thing and following both the spirit and not just the letter of the law". The founding facets of effective ethics and compliance are culture, leaders, and risks management. Policies and procedures that integrate these factors reduce the risks of non-compliance. The organization psychological environment aligns with key characteristics of the workplace such as physical setting, culture, and job characteristics. Aspects such as noise, heat, and lighting measures may considerably impact concentration, thus affecting psychological well-being. According to Ruiz-Palomino, Martínez-Cañas, and Fontrodona (2013, p. 173), ethical culture directly impacts an individual's emotional and well-being, which characterizes organizational psychology. Culture and ethics influence perceived corporate support and social exchange, which trigger ethics and compliance.

*Keywords:* ethics, compliance, organizations' psychological environment, employee behavior, corporate culture

## Introduction

Ethics and compliance programs are emerging trends and integral of business evolution. The two facets are becoming a cause of concern and major issue to many companies due to the changing marketing conditions. Most multinational companies strive to comply with rules, regulations, policies, procedures, and codes of conduct prevalent in the global markets. Ethics and compliance programs have a significant impact on company operations both directly and indirectly. Violations often lead to loss of finance, staining corporate image and at worst scenarios, lawsuits, fines, and sanctions, according to Deciu (2020, p. 1863). Compliance programs are key policies and procedures formulated and implemented in the organization to act as a guide to comply with the laws and regulations of the country with a view of maintaining a good corporate image and reputation among the customers. Commonly, many companies spend a lot of funds to establish effective ethics and

compliance programs. Therefore, some companies have highly effective ethics and compliance programs compared to others. Miller (2018, p. 1) notes that improving the ethics and compliance framework is cost-effective since it minimizes the risks. Notably, ethics and compliance programs influence the risks assessment and have an extensive impact on the organizational psychological environment. Deciu (2020) shows that the program has significant implications for companies' culture and employee behaviors. So, this article establishes the scenario of the organizations' psychological environment traits modification when adopting an ethics and compliance program.

## **Ethics and Compliance Programs**

### **Perspectives of Ethics and Compliance**

Compliance and ethics are two dynamic aspects integrated into most organizations to provide a smooth flow of operations. The two are often used interchangeably or simultaneously to portray similar meanings. Some practitioners note that ethics and compliance do not have similarities, while other states do. Some organizations have two departments dealing with compliance and ethics separately, while others have compliance and ethics monitoring company operations vis-a-vis prevailing compliance and these risks in the market.

**Compliance.** In his article, Weinstein (2019) notes the diverse views from the corporate leaders in charge of compliance and ethics in the organization. Cindy Morrison, Director of Compliance for Post Holdings, Inc., defines compliance as “the act of conforming to company policies and procedures as required by laws and regulations”, while Carol Tate, Director, Ethics and Legal Compliance for the Intel Corporation, notes compliance as “Compliance is table stakes. It involves following the laws and rules that apply to your company's business” (Weinstein, 2019).

According to Weinstein (2019), some leaders look at ethics as one of the key facets of compliance. Gerry Zack, CEO of both the Society for Corporate Compliance and Ethics and the Health Care Compliance Association, defines compliance as a “Framework for ensuring an organization and its people comply with laws and regulations that are applicable to it and minimizing the risk of noncompliance” (Weinstein, 2019). Dr. Annamária Náday, Compliance Officer at CIB Group, defines compliance from the perspective of its purpose. Compliance is essential or fundamental policies and procedures that assess and manage potential company risks. The compliance officer states that the compliance department holds considerable independence from other departments to ensure excellence in its key goals. The major objective is identifying and managing risks such as loss of finances, reputation, and sanctions and fines. Dr. Annamária Náday notes that “Compliance is a fundamental pillar of any corporate operation and culture, and it should be based upon the principles of transparency, impartiality, responsibility, integrity, professionalism and ethics” (Weinstein, 2019). In addition, Kortney Nordrum, Regulatory and Compliance Counsel for the Deluxe Corporation, defines compliance as “The effort to prevent, find, and fix legal and ethical issues in the organization” (Weinstein, 2019). The diversity of the definition of compliance is also noted from Terri Civitello, Associate Director, Ethics and Compliance for Otis Elevator, to note that “Compliance is abiding by all the rules, all the time” (Weinstein, 2019).

**Ethics.** Weinstein (2019) also sought to unravel the difference or distinguishing characteristics of the two facets of risks assessment ethics and compliance through the interviews with the corporate leaders. The results provided a broader view and perspectives. Cindy Morrison from Post Holdings defines ethics as follows,

“Ethics is the opportunity to contribute, influence and lead through the discipline of doing what is right” (Weinstein, 2019). On the other hand, Carol Tate at Intel notes that “Ethics goes beyond what the law requires. It involves doing the right thing and following both the spirit and not just the letter of the law” (Weinstein, 2019). Also, Gerry Zack from SCCE and HCCA on ethics notes that

Ethics is harder to define than compliance because it involves abiding by one's personal code of conduct. Everyone has their own ethics. There isn't a universal rule, if you will, for ethics. But ethics, in essence, is about doing the right thing. (Weinstein, 2019)

Dr. Annamária Nadai at CIB Group definition on ethics is “high-level values and standards of behavior for choosing the right thing to do”, while Kortney Nordrum from Deluxe agrees that “Ethics is what we teach to help others make good choices, both inside and outside the bounds of the official rules” (Weinstein, 2019). Finally, Terri Civitello at Otis Elevator defines it as “Behaving in a manner that aligns with values such as respect, trust, integrity” (Weinstein, 2019).

Ethics revolves around doing the right things. It is exercising morals, values, and predetermined standards in a company. From the definition, one thing stands out; companies hold higher standards. Compliance is more of laws and regulations than ethics, which considers the person's code of conduct. Tate tends to distinguish the two tenets, though bringing out the extent to which compliance covers. Violations of compliance may result in sanctions and fines compared to ethics. Tate notes that

Rules matter, but culture and ethics matter more. Companies may have written, accessible policies, processes and tools all of which their employees are trained on. However, if the company has a poor culture, none of its controls, policies or procedures will matter. Instead, in companies with poor cultures, employees tend to act in ways that harm the company's reputation, increase the risk of compliance failures and act in ways that can lead to illegal and/or fraudulent conduct, (Weinstein, 2019)

while Vitelli from Otis states that,

Compliance holds us to high standards because violations can result in fines, but the field of ethics in my mind is the higher standard. If we behave according to the standards of ethics—truth, respect, and integrity—compliance naturally follows. (Weinstein, 2019)

### **Effective Ethics and Compliance Programs**

**Nature of ethics and compliance programs.** Ethics and compliance programs are regulatory strategies that states formulate and implement to curb scrupulous deals that many companies engage in. They are a form of practical arsenal that government deploys and mandated by key statutes and regulations such as the bank secrecy act that outlays the anti-money laundering policies and procedures and the Dodd-Frank Act's that governs swap dealers and futures commission merchants (Miller, 2018, p. 1). The Bank Secrecy Act of 1970 has some key requirements that ensure an effective compliance program. Some of these states requirements include the presence of internal controls, procedures and policies, ongoing training programs for employees, a compliance officer, and an audit committee who assess the compliance programs (Miller, 2018, p. 2). The four requirements are prevalent in all the programs formulated and executed in most companies. They are mandatory and subject to implementation in all multinational companies regardless of the sector.

In addition, ethics and companies are guided by the SEC rules that govern all investment companies and advisors. They are the key source of strategies, steps, and guidelines for trade deals in the stock markets and beyond. The banking sector is also guided and governed by the Volcker Rule, which mandates procedures and

policies against that proprietary trade deals in the banking industry. All the banks are embracing the laws and regulations outlined by the report. Some of the keys constitute of the banking regulation, according to Miller (2018), which are:

(1) written policies and procedures reasonably designed to document, describe, monitor and limit regulated activities; (2) a system of internal controls reasonably designed to monitor compliance; (3) a management framework that delineates responsibility and accountability for compliance; (4) independent testing and audit of the effectiveness of the compliance program; (5) training for trading personnel and managers, as well as other appropriate personnel, to implement and enforce the compliance program effectively; and (6) making and keeping records sufficient to demonstrate compliance (Miller, 2018, p. 6).

The department of justice designed the foreign practices act and SEC to ensure better compliance through elaborate measures. According to Miller (2018, p. 6), Resource Guide to the U.S. Foreign Corrupt Practices Act outlines key requirements that provide effective ethics with a compliance act. One of these elements is the commitment by the top-level managers to articulate policies and procedures that ensure compliance and fighting of corruption. Also, the company should have well documented and clear code of conduct and policies of compliance. Oversight or supervision strategies are a mandatory facet of the compliance programs. Companies should outline the strategies that companies take to ensure non-violations of the laws and regulations by stakeholders. Other policies are risk assessment, ongoing training advisory for the employees, disciplinary measures and incentives, third-party due diligence and payments, confidential reporting and internal investigation, continuous improvement, periodic testing and review, pre-acquisition due diligence, and post-acquisition integration in mergers and acquisition transactions (Miller, 2018, p. 7).

#### **Facets of effective ethics and compliance programs.**

***The commitment of top-level management.*** The effectiveness of the ethics and compliance programs depends on the level of seriousness by the company's chief executive and board of management (Deloitte, 2015, p. 4). The board directors play a major role in selecting CEOs with high-level competence and chemistry with the company goals and objectives. CEOs are the key source of inspiration and motivation to the other stakeholders in integrating ethics and compliance (Deciu, 2020, p. 1863). The managers outline the strategies that seek to invest resources and time in training and instill knowledge on the subordinates to the significance of ethics and compliance to the company mission and vision; they assess the company's technical know-how and capability to support the company required ethics and compliance programs. Such an instructional approach will ensure the success and effectiveness of the ethics and compliance, thus minimizing risks of violating the business ethics and laws and regulations that may, in turn, adversely affect the company value. Every organization aims at creating a community united by common goals. The company stakeholder line is to be associated with success. A company with excellent employee involvement and high shareholder value and plans accurately reflects stakeholder interest. Setting the right tone at the top of an organization goes beyond financial benefits instead, it creates an enterprise anchored to practical ethics and compliance (Deloitte, 2015, p. 6).

***Organizations' culture.*** The foundation of ethics and compliance is organizational culture. It is the core determinant of how the stakeholders perceive, view, or interpret the company's integration of ethics and compliance. A company built upon integrity will foster a sense of honesty and other moral values among the employees. Lack of integrity may affect the effectiveness of the ethics and compliance due to negative perceptions by the stakeholders. According to George Hanley, Director, Deloitte Advisory, Deloitte & Touche LL, "Culture helps people understand what is expected of them and how they need to behave. When the

organizational culture embraces integrity, people know that integrity needs to characterize their actions” (Deloitte, 2015, p. 8). Creating a positive climate in the company may go a long way in creating positive and freedom among the company stakeholders. It breaks the negativity in the hierarchy and establishes a communication framework that no one is afraid to speak or report any unethical and non-compliance activities within the company.

**Risk management.** Risk management and compliance program are intertwined. They focus on the identification and mitigation of potential risks in a company. However, the compliance program targets potential violations of the laws and regulations and ethical business practices. Risk management is pretty diverse and includes the assessment of operational, reputational, and financial risks. According to Tim Cercelle, Director, Deloitte Advisory, Deloitte & Touche LLP,

The starting point for all compliance programs is knowing what areas have the highest potential for violations of law. You need to ferret out and prevent the most serious types of risk for your organization. That means you need a solid understanding of the environment you are operating in. (Deloitte, 2015, p. 13)

Knowing the risk fosters the effectiveness of the monitoring and control measures put in place by the organization. Therefore, regular risk assessment and mitigation saves the company from the reputational damage that may arise from lawsuits about noncompliance and ethical business practices.

## **Organizations' Psychological Environment**

### **Organizational Psychology**

Organizational psychology is a branch of industrial-organizational psychology that deals in the management of employee behavior to determine the job characteristic that acts as motivation and inspiration. According to Kraiger (2001, p. 7367), organizational psychology pertains impact of work on internal employees. Some of the key tenets are job satisfaction, organizational commitment, and work motivation. In addition, organizational psychologists look at the factors that enhance interpersonal interaction in the company. They evaluate teamwork, group behaviors, and effectiveness of leadership characteristics. Also, the psychologists look at the work design, organizational systems and structures to foster employee and company effectiveness. Organizational psychology has a broader view and influence on moral values, cognitive abilities, and state of emotions. The domains analyze and enhance communication framework and relations between members within groups and between leaders and subordinates.

Organizational psychology provides an in-depth understanding of the company's culture and employees perceptions. The degree of knowledge depends on understanding the company internal strengths such as resources, HR practices, decision factors, and organizational development. While zeroing in the HR practices, the field of study analyzes individual perceptions of the current HR management practices. Some of the questions prevalent in organizational psychology include “Why an individual loves or hate a given job?”, “Does job satisfaction contribute to employee performance?”, “What are the implications of work stress both at the office and at home?”, “What are the core competencies and characteristics of effective leadership?”, “Are there roles and responsibilities which are intrinsically boring/interesting to an individual, and why so?”, “How do leaders foster consistent productivity of the employee and sustainability of the company performance?” (Kraiger, 2001, p. 7367).

Organizational psychology plays a huge role in ensuring the effectiveness of the organization. The field of study provides an in-depth analysis and understanding of key factors that may be implemented to facilitate a positive climate. Some of the theories include goals setting and decision-making strategies. Kraiger (2001) notes that top managers encourage and empower employees through goal setting. Continuous productivity is achieved when employees are given clear and competent goals at the individual and organizational levels. In addition, the decision-making stage influences organizational development and growth. Particularly, group decision making fosters leaderships traits through emulation of the colleagues or the team leaders. The theories are practical in the ethics and compliance programs. Good moral values and culture may be fostered through goals setting and good leadership styles. It cultivates a culture of compliance with the policies and procedures within a company.

### **Link Between Work Environment and Organization Psychology**

There is a strong link between the work environment and individual psychological well-being. The environment has many factors that may include how one response to one's roles and responsibilities in a corporate setting. A work setting can affect psychological well-being through the production of health hazards that may indirectly or directly be linked to psychological issues. The linkage between the psychological environment and the work environment is less transparent and indirect. The links arise from how the workers perceive their working conditions. According to Briner (2000, p. 300), numerous job characteristics may have influenced psychological well-being, but a single character may not be relevant to the worker's perception. Some of the key elements that feature some correlations are as follows:

**Physical setting.** Briner (2000) notes that physical setting is highly relevant when determining the implication of the workplace on psychological well-being. The physical environment may affect an individual degree of performance. Concentration is significant in some tasks. Aspects such as noise, heat, and lighting measures may considerably impact engagement, thus affecting psychological well-being. Noise has implications on individual cognitive performance. Workers working in places with traffic and industrial noise may have a low level of productivity. Some office layouts n designs featured as open offices directly impact social interaction compared to closed-door offices. Therefore, the arrangements of office influence the state of mind, motivation, empowerment, and engagement of the workers. They influence the perception of tasks or job satisfaction. Also, the arrangement may be linked to the level of safety in the office. The person's concerns about the occurrence of injuries or incidents impact psychological well-being (Briner, 2000, p. 300).

**Organizational structure and culture.** An organizational structure defines the company arrangement in terms of jobs and responsibilities. Some companies have embraced hierarchical, while others have a flat organizational structure. The type of structure affects how the teams or groups are organized. It also determines the level of interaction and support of the workers through the flow of communication. Culture is the way of doing things in an organization or accepted norms of behavior. Organizational culture includes level interaction between employees, and determines the attention to the works wellness through management of social support, oppressive behavior, and working hours (Briner, 2000, p. 300).

## **Ethics and Compliance Programs and Organizations' Psychological Environment**

### **Ethics and Compliance Programs and Corporate Culture**

As noted earlier, culture is the foundation of effective ethics and culture; vice versa is also true. If manager

desires to develop an excellent culture in the company, then ethics are important ingredients; they form a concrete foundation for long term compliance with the company policies and procedures. Organizational psychology is directly linked to the employees' morale. Adherence to ethics improves the level of confidence among the employees. Every staff needs to be around a trustworthy leader. Workers would want to be around a working climate full of honesty, integrity, and honor. Cultivating such values makes employees feel safe, respected, encouraged, empowered, and valued in the company. Leaders who foster an ethical and compliance climate within an organization are likely to experience a high level of morale since the employees will embrace all the tenets of compliance programs, thus reaping both benefits at the organizational level and individual level. According to Ruiz-Palomino, Martínez-Cañas, and Fontrodona (2013, p. 173), ethical culture directly impacts an individual's emotional and well-being, which characterizes organizational psychology. The survey carried of the 468 employees for the various banks in Spain proves a strong connection between ethical practices and employee morale.

In addition, ethics eliminates the levels of misconduct in a company. A company with a well-written code of conduct will successfully integrate ethics and compliance programs. During induction to the company, all the recruits are given a document that outlines the standards and expectations in the company. Setting such measures will ensure that the staff and managers understand how to conduct themselves professionally while carrying out business activities such as interacting with company stakeholders. The written code of conduct integrates all the policies and procedures include laws and regulations. It goes a long way in building a culture of transparency, accountability, trust, and respect. Ultimately, it minimizes the occurrence of misconduct or violation of ethics and compliance programs in the company (Mayer, Kuenzi, & Greenbaum, 2010, p. 13).

Ethical principles improve the effectiveness of compliance with the rules of laws and regulations. Ethics is more dynamic compared to the legality of the action. Some actions might be legal but not necessarily ethical. Leaders focus more on ethical business practices that will meet compliance with the state requirements. A company should have a suitable and very strong foundation on ethics and compliance with rules of law. They are complementary and thus must be modified or upgraded hand in hand. The modification will cut across the communication of the values and principles training and ensure accountability at the individual level. In the long run, it will build a culture of compliance, thus minimizing risks. Minimization of risk will eventually boost both individual and organizational performance; if the code of conduct has a strong linkage to personal values, it fosters productivity of the employee and manager, which contributes to the achievement of organizational goals and objectives.

### **Ethics and Compliance Programs and Leaders and Employee Behavior**

Ethics and compliance programs are prime factors in the work environment. They help in shaping the interrelationships that exist between the company stakeholders. So, they ultimately influence the performance of a company. Some of the primary issues with a higher degree of implications are ethical considerations and laws and regulations. What is important is a connection between such ethics and compliance with the company workers behavior and performance. Elçi and Alpkın (2009) have established research findings based on the implication of an ethical climate on job satisfaction. The researcher collected data and information from 1,174 staff and managers from 64 firms located in Turkey. The survey focuses on certain ethics dimensions, including company profit, self-interest, personal morality, compliance, team interest, and rules and procedures. The results show that self-interests have negative effects on job satisfaction. On the other hand, an ethical climate

comprises of the following factors: compliance, team interest, and rules and procedures, which have a considerable positive impact on job satisfaction.

US Sentencing Commission monitors compliance to such programs, and any violations may result in high risks. The commission puts pressure on the companies to ensure the effectiveness of the policies and procedures. According to Angelucci and Han (2010), the compliance flow of information between the management and employees is an effective compliance program. The authors note that shareholders can limit the managers from breaching the laws. The effectiveness of compliance programs is indicated when the manager sanctions are high. Vice versa is also true; if the manager sanctions are low, the implications on social welfare may be detrimental.

Angelucci and Han (2010) note that:

corporate leniency increases the effectiveness of CPs to fight corporate crime. The reason is that corporate leniency incentivizes the shareholder to report evidence uncovered through a CP to the authority, resulting in a sure managerial sanction. Thus, the combination of corporate leniency and the adoption of a CP increases the expected managerial fine, which in turn disincentives the manager to breach the law, thereby reducing the salary to prevent a breach while increasing the salary to induce a breach. Hence, in the presence of a CP, corporate leniency increases (reduces) the salary cost of inducing (preventing) a breach, thereby making it relatively more profitable for the firm to prevent corporate crime. (p. 4)

### **Ethics and Compliance Programs and Organizational Support**

Organizational support is an important integral of the organizational psychological environment. Perceived corporate support can be described as the extent to which the top-level management cares about the employee wellbeing and recognizes their contribution. Perceived organizational support creates a viable culture that motivates them through strengthening their belief that the administration cares about their contribution and rewards improvement and good behaviors (Greene & D'Arcy, 2010, p. 3). From the social exchange theory. The company expects loyalty and a high level of commitment which motivate the employee to be productive, thus meeting company objectives.

The organizational psychological environment can be perceived from the perspective of organizational support. Organizational support from the leaders in an organization has a considerable impact on employee behavior. According to Deciu (2020, p. 1870), the ethics and compliance program may be shaped to motivate employees and create a positive psychological environment through value orientation. Fostering a positive climate in the organization establishes reciprocation following the social exchange theory. If the employee perceives a positive and ethical environment coupled with good intentions from the management, they reciprocate the social benefits, thus creating a circle of exchange resources. The employees will exchange good deeds with good deeds since they have integrated the return in favor culture. According to Greene and D'Arcy (2010, p. 3), organizational support encourages employees to commit to their roles and responsibilities and engage in beneficial behaviors in the company. A high level of commitment will inspire and empower employees to comply with ethics and compliance program, especially security policies.

Compliance programs prior on fostering good value among employees are beneficial since they are perceived as supportive to the employees compared to the programs which emphasize the detection of offences and discipline. If the management emphasizes detection and discipline, it may foster negative permeation among the employees and encourage noncompliance. Employee centered policies and procedures promote involvement in the decision-making process. They are actively involved in establishing the laws and regulations, which bring clarity to the ethics and compliance programs. Employees will have an adequate



understanding of the benefits of the program to both individuals and the organization. In the long run, it is a win-win situation where the organization minimizes risks of non-compliance, and the employees improve their social welfare and well-being through support by the top-level management. The employees have advised counselling on how to adhere to predetermined guidelines. It builds a sense of collaboration, equity, and fairness for all the stakeholders. According to Deciu (2020, p. 1871), "Compliance programs promote a sense of obligation in employees if they are value-oriented as they create a sense of perceived organizational support, which in turn makes the employees feel obligated to perform better and to comply with the regulations".

### Conclusion

Adoption of ethics and compliance programs modifies organizations' psychological environment traits. The perceived organizational support and social exchange are quite evident in the article. Compliance programs influence culture and employee behaviors. Perceived organizational support and social exchange have implications on the roles, organization management, and identity of the individuals regarding the company. Some of the key traits are affected by the compliance programs, namely decrease in misconduct, increased awareness of ethics, motivation, commitment and dedication to the tasks. The employees will reciprocate good deeds from the management, such as increasing their commitment to their jobs, thus boosting productivity. Also, suppose the company management designs the policies and procedures properly. It strengthens the company ethical practices, thus minimizing the risk of non-compliance by both leaders and the company stakeholders. Effective ethics and compliance depend on the tone set by the top leaders. Suppose they cultivate good leadership styles and moral values which encourage compliance by all company stakeholders. In some circumstances, the adoption of ethics and compliance programs may negatively affect the behavior of the employees. Employees may preserve the strictness of the ethics as punitive, thus developing a fear of misconduct. In this case, they are committed to the company; rather, they comply with policies to avoid facing fines or losing their jobs. So, the company management needs to evaluate implementing the procedures to assess their response by the stakeholders and limit such risks.

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