

# ETHICS AND COMPLIANCE OFFICER'S ROLE IN 'HEALING' ORGANIZATIONAL CULTURE

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**Abstract:** Last decades have strongly imposed in the public mind the importance of taking in to account the organizational life's ethical dimension. If in the advanced states the terms of ethical management encouraging organizations to adopt compliance management programs, at ethical and legal level, are constituted in government strategies, in Romania these aspects are still little known. Today's Romanian society largely reflects what does exist, happens or changes in the organizational space. The article sustains the idea of institutionalizing ethics in organizations as a way to making the society 'moral draining'. Management specialists describe several ethics implementation strategies. We have chosen to dwell on the organizational culture changing strategy and creating a moral culture, focusing on the ethics and compliance officer's role. Because managers are 'products' of the organizations that they lead, and their perceptions are influenced by the mental frame promoted by the organizational culture, it is difficult to make a correct diagnosis of the organization and to establish a strategy for change. Ethics and compliance officer, an occupation yet unknown by the Romanian trade nomenclature, is the person who works closely with the manager determining which are the organizational culture's resorts; he or she is the one who, aiming organizational health, contributes to the development, the interpretation and the implementation of ethics policies and programs.

**Keywords:** ethics management, ethics and compliance officer, organizational culture, code of ethics

Since the early twentieth century in the Western world have been done numerous studies on organizations, from Elton Mayo's research in the years '20-'30, with the behaviorist approach and until current approaches regarding the organizations from the strategic management perspective. Americans were among the first who thought that

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organizations should be seen not only in terms of economic value but also in terms of moral values that must guide their management. At these concerns of managers, psychologists, economists, the philosophers haven't remained uninterested either, contributing and laying the foundation of an ethic applied in management and in the institutionalization of ethics in organizations. The ethical management concept, appeared in USA as a result of corruption scandals that have included large organizations, penetrated in Europe too through England. In Romania, a first attempt of organizations' analysis in terms of ethics is achieved only in 2008 by Valentin Mureșan<sup>1</sup>.

Analyzing the ethics management situation in Romanian organizations, through an empirical study done on state universities and companies but also private, the mentioned author observes that here almost weekly one corruption scandal breaks out, stealing is designated, by tradition, as a virtue, and not as a bad habit, and the dominant culture is the one of bad done work and the rejection of rules. The Romanian organizations' dynamics is one of the best indicators of the social change that Romania is passing through: unemployment, bankruptcies, workers mentality, lack of evaluation systems and motivation of staff are just some of the indicators of Romanian society failure. Moreover, in Romania a "problem is management itself"<sup>2</sup>.

According to Mihaela Vlăsceanu today's society is a society of organizations. The society we live in it looks just like the components of the organizations. "Good or bad, our society largely reflects what exists, happens or changes in the organizational space"<sup>3</sup>. Following this logic, the author argues that the change in society must start from questioning the organizational structures and management practices of organizations.

Recent years have brought frequently in the Romanian public consciousness the importance of taking into account the ethical dimension of organizations. Codes of ethics, ethics education for staff, creating an organizational moral culture, have been raised both by

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<sup>1</sup> Valentin Mureșan (2008). *Cercetare pe tema stării managementului etic. Situația managementului etic în România*, <http://www.ccea.ro/index.php/evenimente/4-cercetare-pe-tema-stării-managementului-etice-?Showall=>

<sup>2</sup> Zoltan Bogathy (2002). *Introducere în psihologia organizațională*. Curs universitar. Timișoara: Tipografia Universității de Vest, p. 6

<sup>3</sup> Mihaela Vlăsceanu (2002). *Organizațiile și cultura organizării*. Bucharest: Trei, p.16

academic environments and media. Valentin Mureșan believes that ethical issues in organizations can not be tackled only by laws, rules and regulations. The author states against strict legalistic approach to defining acceptable behavior and proposes the introduction of ethical criteria in the Romanian organizations' strategic plan.

Management specialists describe several strategies for implementing ethics in organizations, but we have chosen to dwell in this article on the strategy of changing the organizational culture and creating a moral culture, and the role of the one responsible for ethics in this difficult process.

## ORGANIZATIONAL CULTURE

All organization forms have their own deliberate defined or undefined culture. In the organizational psychology is stated that 'organizations have cultures just as people have personality'. Culture is the core of all organizational networks. It influences and is influenced by strategy, structure, system, personnel and skills. It is the identifier of an organization.

The organizational culture's study field has a relatively recent history, the term beginning to be used after the year 1980. The interest in organizational culture is explained by the fact that the world community in the current epoch is marked by processes of globalization and informatization of human activities. The importance of studying organizational culture is given by the practical capacities shown by this variable which is used, more often, in the development of organization's performances. Important changes that took place in the socio-economic space require changes to the objectives, structures and methods used in organizations.

There are different approaches to organizational culture. Over time many definitions have been made for the organizational culture term, each of these highlighting some of its components.

Mihaela Vlăsceanu (2002, 49-51) identifies three dominant perspectives of approach of the organizational culture:

- Unitary or integrative perspective, which defines organizational culture in terms of values, of interpretation shared by all members of the organization. This focuses on studying myths, symbols, ceremonies, rituals as an expression of cultural coherence.

- A perspective of differentiation and multiple meanings, according to which is impossible to find the same cultural manifestations across the organization and supports the existence of multiple cultures that represent the source of conflict or the organizational change.
- The ambiguity perspective, according to which the meanings that people give to things are in a constantly changing process depending on the situations, individuals or organizational life cycles.

Whatever the perspective of organizational culture approach is, it is kept the basic idea that behind the organization is a whole universe of meanings and interpretations which guide the actions and relations between people. The author stresses that in the social construction of the organizational reality an important role is played by the belief system, values, ideologies, rules, ceremonies, whose knowledge provides managers with a basis for understanding how to influence organizational change. Adopting a strategy for organizational change requires a subtle approach that aims the general orientation of events or of the future of the organization and which can not ignore the collective ethos as a theme of change.

Nicoletta Ferro believes that the organizational culture is rather the unconscious result of values imposed by the founders of the organization in question and the determiner example offered by policy makers. These elements are combined in the corporate culture, which is partly codified, partly implicit. Nicoletta Ferro cites studies that claim that this organizational culture is strongly influenced by national characteristics and the culture's importance within the organization is a fundamental one. Organizational culture can't be put in the background, it underlies the very existence of the organization and it is a key element of organizational excellence. "The distinctive elements of the organizational culture are part of the system of meanings, values, perceptions, behaviors, symbols and rituals that individualize the company in the business environment"<sup>4</sup>.

Organizational culture's core is the national culture because rules, norms, values found within an organization have their origin in the

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<sup>4</sup> Nicoleta Ferro (2006). „Diviziunea morală în afacerile internaționale: cadru descriptiv”, in Daniel Dăianu, Radu Vrânceanu (coord.), *Frontierele etice ale capitalismului*. Jassy: Polirom, p.109

rules, norms and values promoted at national culture's level. According to Geert Hofstede<sup>5</sup>, organizational culture is:

- holistic, being more than the component parts' sum;
- historically determined because it reflects the evolution of the organization over time;
- grounded in social terms, being created and kept by the organization's members;
- connected to elements subject to anthropology (symbols, rituals);
- hard to change over time, despite individuals' fluctuation.

Regardless of the addressing perspective of the organizational culture, that it is predominantly economic, psychological or philosophical, culture is a priority for managers. Current organization is not a closed universe anymore, relatively stable, but an open system that can not be independent of the environment in which it operates, environment from which receives stimulations, opportunities or restrictions. Organizational culture's change is not an end in itself but should be seen as a natural process having as main purpose the maintaining of a competitive position in the action environment.

## ORGANIZATIONAL CULTURE'S CHANGE AND THE INSTITUTIONALIZATION OF ETHICS

Organizational activities' dynamics imposes at some point the need of some changes of the cultural paradigms because low performances achieved compared with the planed ones, because of the important differences between strategy and what is actually happening in the organization, because of hostility to the innovative elements, introduction of new management methods and techniques or because the changes in the economic, technological and social environments are sizable.

Some authors, like Menzel<sup>6</sup>, believe that in order to build 'organizations of integrity' is required to stand on ethics management and he describes four approach strategies: the strategy *based on*

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<sup>5</sup> Geert Hofstede (1996). *Managementul structurilor multiculturale*. Bucharest: Editura Economică

<sup>6</sup> See Valentin Mureșan (2009). *Managementul eticii în organizații*. Bucharest: Editura Universității, p. 41

*compliance* (based on the formulation and enforcement of ethical rules in the organization), the strategy of *including in the cost* (unethical actions are treated as a cost factor which has to be reduced), the strategy of *learning* (emphasis is placed on ethical training and ethical provisions assimilations) and the strategy of *creating an organizational culture of moral nature*. According to Menzel, the fourth strategy involves all the other three strategies and is considered to be the most promising.

The same methods used to maintain an organizational culture can serve at its change too. Culture can be changed by: changing management objectives, changing procedures for resolving critical situations, changing the criteria for recruiting new members, the promotion criteria in the organization and reward criteria, changing organizational rituals and ceremonies.

Antonio Argandona<sup>7</sup> considers that the design of a program aimed at changing organizational culture is an art. The author mentions a number of conditions to be accomplished by an efficient program: it should be adapted to the organization's particularities, it must anticipate the areas in which is most likely to appear ethical problems in order to prevent and resolve them, to stimulate a ethical dialogue process, to have an open and continuous character.

A successful cultural change requires understanding the previous culture: a new culture can not develop without both managers and employees to understand where to start from. It is important to support employees who behave ethically and to identify the most effective subcultures within the organization and use them as an example. The prospect of a new culture serves as a guiding principle for change but it will not make miracles. Zoltan Boghathy believes that inducing change in the culture of an organization is a difficult action, whose duration is measured in years and involves a high degree of difficulty, requiring as a prerequisite to trigger a crisis that is based on the failure or inadequacy of the old assumptions and values (Boghathy 2002, 22).

Cultural change takes shapes and variable size depending on the state at which it occurs in the organization's development. G.J. Rossouw and L.J. van Vuuren<sup>8</sup> note that organizations today know an evolutionary process in terms of ethics management and he identifies 5

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<sup>7</sup> Antonio Argandona (2006). *Despre sisteme de management etic, social și de mediu*, in Daniel Dăianu, Radu Vrânceanu (coord.), *op.cit.* p. 201

<sup>8</sup> See Valentin Mureșan (2009), *op.cit.* p. 42

stages: the immorality stage (organizations are not interested in moral issues which they consider impediments of current activities), reagent stage (organizations show a formal involvement in moral issues), compliance stage (disciplinary measures are introduced), integrity stage (ethical values are part of an ethical organizational culture) and total alignment stage (ethics becomes part of the organization's management).

An ethics management system consists of a set of internal efforts to formulate, plan and implement certain policies that will lead the organization to better fulfill its ethical duties, and employees to evolve in terms of ethics. If the program succeeds could bring a change of culture, new work routines, new information and communication models and new stimulation systems. Changing organizational culture is considered by Argandona as 'the key of success in terms of ethics'.

According to Corina Iulia Voicu<sup>9</sup>, in order to ensure a successful plan, its initiator must, throughout the planning and conduct, respect some rules: to analyze in advance the organization and the need for change, to create a vision shared by all members, to support the role of leader, to create a sense of urgency, to create an implementation plan, to develop structures that allow the change and then to institutionalize it. But the realization by managers of a real portrait of the organization is a difficult action because managers are "products" of the organizations they lead and their perceptions are influenced by the mental frame promoted by the organizational culture. They find it difficult to keep the required distance for a fair assessment of the situation. Managers may conclude that, as shown, the organization is totally appropriate to the outside context, prerequisite to enter into a vicious circle that becomes a barrier for implementing a strategy for change. Romanian research<sup>10</sup> revealed that managers, instead of becoming agents of change in organizations have proved themselves to be the main resistant to change factors.

To develop an ethical organizational culture is needed, in Menzel's view, a exemplary management team in what concerns moral aspects, to achieve a lucid analysis of the organizational culture, the practice of

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<sup>9</sup> Corina Iulia Voicu (2008). *Obstacolele schimbării valorilor în munca de asistență socială*, in Ion Copoeru, Nicoleta Szabo (coord.). *etică și cultură profesională*. Cluj-Napoca: Casa Cărții de Știință, p. 349

<sup>10</sup> See Laurențiu Maricuțoiu (2004). „Eficiența organizațiilor între acceptarea schimbării și managementul dominant. O analiză transversală”, in *Revista de Psihologie Organizațională*. Vol. IV, nr. 1. Jassy: Polirom, p. 94

ethical training, the development and implementation of ethical codes for establishing ethical audit. But for new activities we need new professions, here intervening the role of the ethics and compliance officer.

## ETHICS AND COMPLIANCE OFFICER

The ethics and compliance officer profession, still foreign to the Romanian trade nomenclature, was first introduced in the U.S., country ranked as the most advanced in terms of ethical management. In the U.S., encouraging organizations to adopt compliance management programs, on ethical and legal plans, is done in governmental strategies. Here the ethics and compliance officer has found a place in the executive suite of an organization since 1977, as a result of the scandals involving companies that have bribed foreign officials and politicians to gain or maintain the gain in business. In 1992 a professional association was founded ("Ethics and Compliance Officer Association") which sets the values, mission and powers of this new job.

Ethics officer plays an active role in the work of ethical management of the organization, meaning that 'all activities and measures aimed at institutional organization of ethics for the creation of organizations of integrity' (Mureșan 2009, 39). Ethical management's goal is to strengthen morality as an essential part of culture and purpose of the organization. Argandona maintains that ethical management is not a substitute for a personal ethical conduct, neither for an organizational culture that involves an ethical behavior, but an effective mean to achieve these goals by directing them to an organizational excellence.

According to the emphasis of *Business Ethics. A Manual for Managing a Responsible Business Enterprise in Emerging Market Economies*<sup>11</sup>, ethical officer's mission is the integration at all levels of the code of ethics and company values, and also ensuring compliance with rules of conduct. For this the ethics officer works closely with the management, recommends rules of conduct within the organization, and in case of reports of ethical problems, he analyses the situation and

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<sup>11</sup> See Daniela Tatiana Corodeanu (2007). *Etica în administrația publică. Dileme etice în organizații și instrumente de rezolvare a acestora*. Jassy: Tehnopress, p.139



proposes ways of approach. Ethics officer's responsibilities include administration and development of ethical values of the organization, ensuring compliance with ethical rules of business conduct, in all organization's structures and at all levels, coordination and supervision of the development process, interpretation and implementation of ethics policies and programs, the activity programs' development concerning ethics code. Ethics officer is in charge of organizing training sessions on the line of ethics and compliance with rules of the organization, and he also conducts regular communications concerning ethics. He deals with the administration of the program of reports on violations of ethical standards, policies and organization's procedures. He is the one who determines which are the organizational culture's springs, the one who determines the risks that the organization is facing and he prevents breaches of ethical standards.

Within the organization the ethics officer meets the role of 'moral expert', he is the one who, according to Valentin Mureșan, possesses 'the mysteries of ethical decision', he knows how to hold an ethical audit process or of collective moral decision, he thinks morally more mature and precise than other specialists, all based on specific experience gained in the organization he serves.

## CONCLUSIONS

After the fall of communism, our country went through a period of institutional vacuum following the collapse of the old centralized system. This state has allowed many individuals and organizations to act immoral, without fear of any sanctions. Widespread corruption and immoral behavior that still characterizes many of the Romanian organizations can be seen as features of institutional fragility and lack of democratic references.

Valentin Mureșan notes regarding the ethical management's status in Romanian organizations, that they are situated at the stage of immorality, total disregard for ethical dimensions, in which prevails a culture such as 'we live in a world of wolves', with tendency to move to the stage so-called reactive, in which managers start to recognize unethical behavior risks. According to the author, many of the Romanian organizations still show lack of interest regarding ethical issues, subordinating their activity to the profit obsession. There are also organizations which, because they are required to adopt a code of ethics are in an uncertain stage of development, this way keeping the

gap between words and deeds. The conclusion drawn by the author is that “in Romania the birth certificate of ethics management has not yet been signed” (Mureșan 2009, 68).

In this context, the completion of the staff scheme of Romanian organizations with the position of ethics officer is a difficult process. This requires the modification of the organization's structure and we expect for many organizations to oppose such an approach, delegating this responsibility to other already existing functions, citing bureaucracy, duplication of tasks, and small businesses insufficient activity, limited personnel and lack of resources.

But the benefits of creating the position of ethics and compliance officer in an organization's structure is obtained on long-term, by establishing and maintaining an ethical climate that will lead to the accumulation of the organization's reputation capital.

Despite the difficulties of implementation due to resistance to change or lack of financial resources, we consider that the proposal to include the ethics and compliance officer profession in the Romanian trade nomenclature is evidence of overcoming the mentality of the communist regime in which were promoted ‘ethics and socialist equity’. Only through the institutionalization of ethics in organizations ‘moral sanitation’ of Romanian society can be achieved.

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