Ethical leadership & culture

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BE HEARD.
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Group's Goal

To offer attractive, safe and **environmentally sound vehicles** which can compete in an increasingly tough market and set world standards in their respective class.

Das Auto.

Code of Conduct

Management culture and collaboration:

Every superior has responsibility for his or her employees.

…bound by more than just legal and internal regulations. We also see voluntary commitments and **ethical principles** as an integral component of our **corporate culture**, **providing a frame of reference we can use to guide our decision-making.**

www.volkswagenag.com

VolksWagen

Ex CEO Martin Winterkorn

Laid blame on "terrible mistakes of a few people".

He said he was not aware of any wrongdoing on his part.

Code of Conduct

Management culture and collaboration:

Every superior has responsibility for his or her employees.

Photo: Peter Rigaud/laif/Redux
http://www.forbes.com/sites/joannmuller/2013/04/17/volkswagens-mission-to-dominate-global-auto-industry-gets-noticeably-harder/

Olaf Lies - VW Board Member

“We only found out about the problems in the last board meeting, shortly before the media did… So we need to find out **why the board wasn’t informed earlier about the problems when they were known about over a year ago** in the United States.”

www.bbc.com/news/business-34397426

Until March 2016 VW had said Winterkorn was unaware of the issue

VW admitted in March 2016 – 6 months after scandal broke, that its former CEO Martin Winterkorn was, in May 2014, sent a memo detailing how:

- some VW cars were producing up to 35 times more nitrogen oxide emissions than allowed
- an independent study found VW cars were producing very high emissions in real life, but very low emissions under strict test conditions

… but VW said no evidence Winterkorn read the memo…

evidence Winterkorn was told again about the problem in November 2014. At that point he was told that fixing the problem in the US would cost about **€**20m

www.theguardian.com/business/2016/mar/02/vw-ceo-martin-winterkorn-told-about-emissions-scandal

Now expected to exceed USD 18 billion

DIFFUSION OF RESPONSIBILITY

What would focus on compliance do?

Moral responsibility in organisations

- individuals encouraged to push responsibility up the organisational hierarchy
- influence of group
- cog in the machine syndrome
- psychological distance

Group and organisational norms affect behavior - pressure to conform

Rationalisation of unethical behaviour

Rogue or systemic misbehavior?

MISCONDUCT AND THE ENVIRONMENT

- role fulfilment rather than individual pathology explains organisational criminal behaviour (Schrager & Short 1978)

- most people are the product of the context they find themselves. They look up and around… (Trevino and Brown 2004)

- at work, a reliable picture of moral conduct can be ascertained "not so much in direct observation of the decision maker as in a firmer grasp of the decision maker's environment" (Frederick 1992)

- measurement and reward systems, organisational culture and examples of peers and bosses exert enormous, cumulative pressures on employees and managers; the organisational culture can as easily induce ethical behaviour as unethical behaviour (Badaracco, 1995)

Wells Fargo CEO defends bank culture, lays blame with bad employees

‘There was no incentive to do bad things’

Staffers … created fake email addresses, such as “noname@wellsfargo.com,” to enrol unknowing consumers or people who don’t exist in online-banking services **to hit sales goals**

www.wsj.com/articles/wells-fargo-ceo-defends-bank-culture-lays-blame-with-bad-employees-1473784452

- over 2 million fake accounts
- 5,300 employees fired
- US $185 million in fines

www.mcall.com/news/local/watchdog/mc-wells-fargo-incentives-crackdown-watchdog-20161130-column.html

Wells Fargo still faces more than a dozen investigations, inquiries and lawsuits

KEEP YOUR ACCOUNTING HAT ON!

Challenger disaster

"Take off your engineering hat and put on your management hat"

No unethical or bad intentions
but
decision criteria and goals led to catastrophic consequences

Los Angeles Times

Shuttle Explodes; All 7 Die

Teacher on Board as Challenger Blows Up on Liftoff

Reagan Postpones Future Flights Pending a Probe

the invisible gorilla

Christopher Chabris and Daniel Simons

www.theinvisiblegorilla.com/gorilla_experiment.html

EMPLOYEE ENGAGEMENT

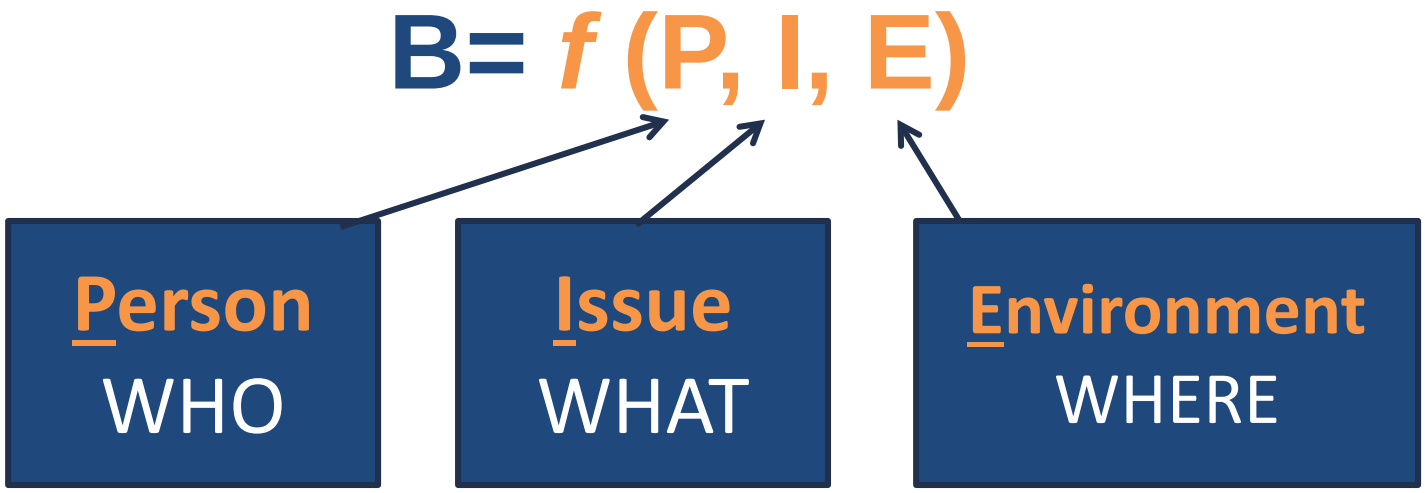
- 24% of employees worldwide are "actively disengaged"
- 13% of employees worldwide are “engaged”
- 70% of U.S. Workers Not Engaged at Work

2016 Gallup research

Companies with highly engaged workforces outperform their peers by **147%** in earnings per share

In Australia employee disengagement costs estimated at **$ 70 billion** per annum

ethical BEHAVIOUR AT WORK

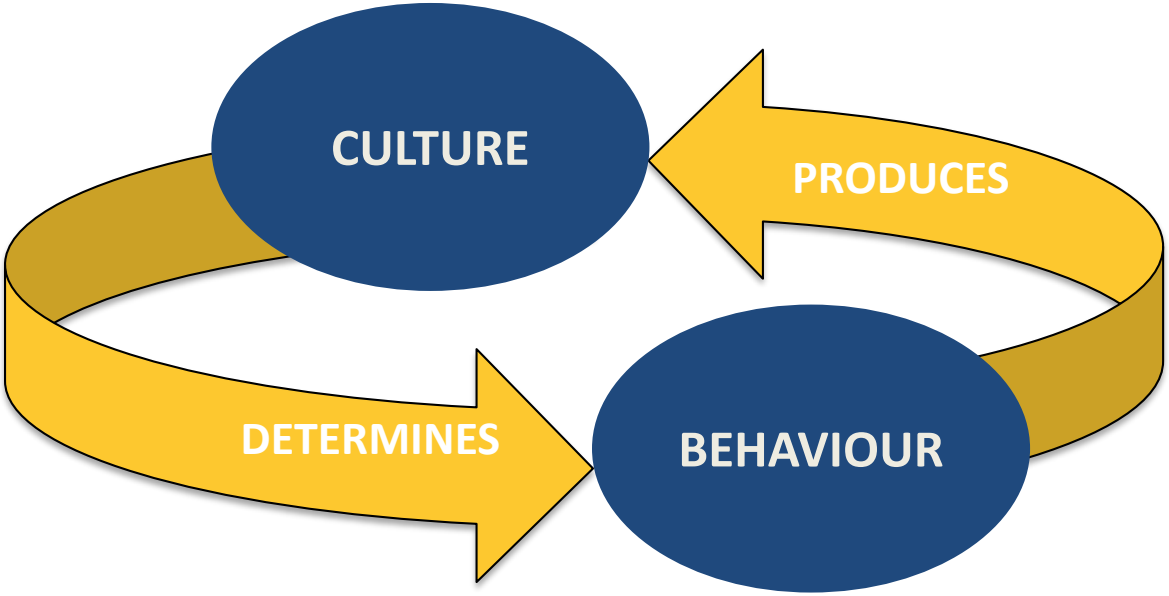


CULTURE

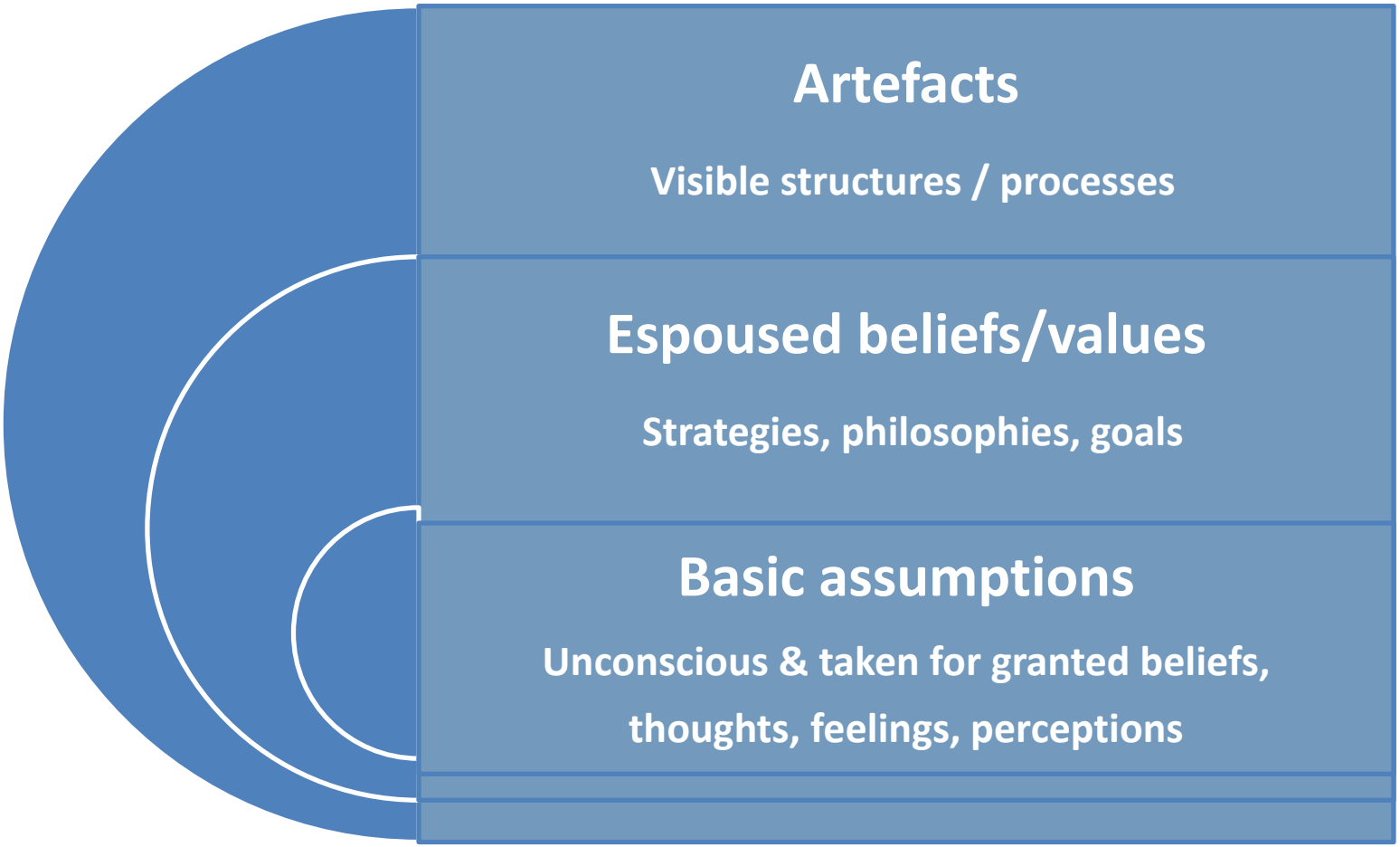
"The way we do things around here"

Ethical Vs **Unethical**	**Strong** Vs **Weak**	Something the organisation ***HAS*** or ***IS*****?**	**Managed (top down)** or **Emergent?**	**One** or **Multiple?**

CULTURE AND BEHAVIOUR



DISECTING CULTURE



Schein, 2004

LEADERSHIP & CULTURE

WHAT'S A GOOD CULTURE?

Horses for courses view

But

- **Ethical desirable ends and acceptable/ethical means**

  Doing the right think in the right way

- **Aligned with the formal elements of the organisation**

PROACTIVE DEVELOPMENT OF ETHICAL CULTURE

- align multiple systems to support ethical behaviour
- audit of ethical culture
- communicate ethics: clear, consistent, credible and consistent

1. Begin with clear standards

2. Design a plan to continually communicate your standards

3. Role model - the ethics talk must be supported by the ethics walk, always

CONCLUDING THOUGHTS

Code of ethics and policies have meaning within an organisation when they are part of the culture

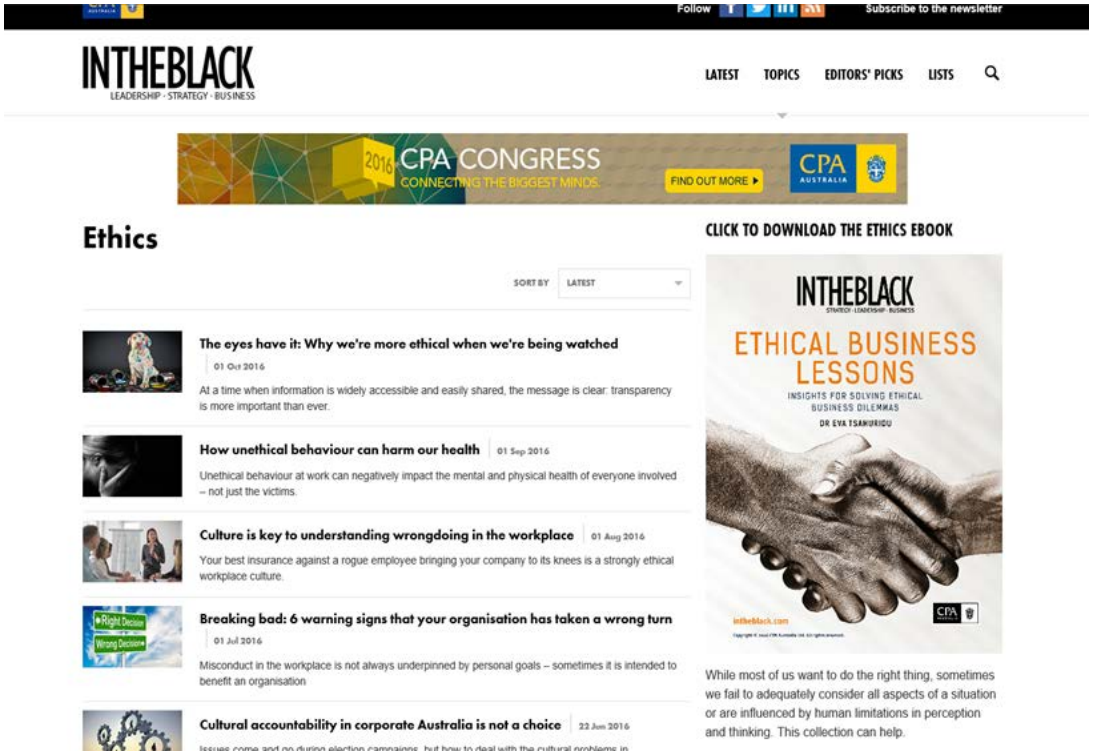
Formal systems influence behaviour only if part of the cultural ethical system

Rhetoric versus reality

- inconsistencies between rhetorics
- inconsistencies between different demands / expectations and rewards

But when we see the essence of a culture … we are struck by how powerful our insight into the organization now is, and **we can see instantly why certain things work the way they do, why certain proposals are never bought, why change is so difficult, why certain people leave**, and so on (Schein, 1997, p. 207)

BUSINESS ETHICS EBOOK



intheblack.com/topics/ethics

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- Accounting Professional and Ethical Standards
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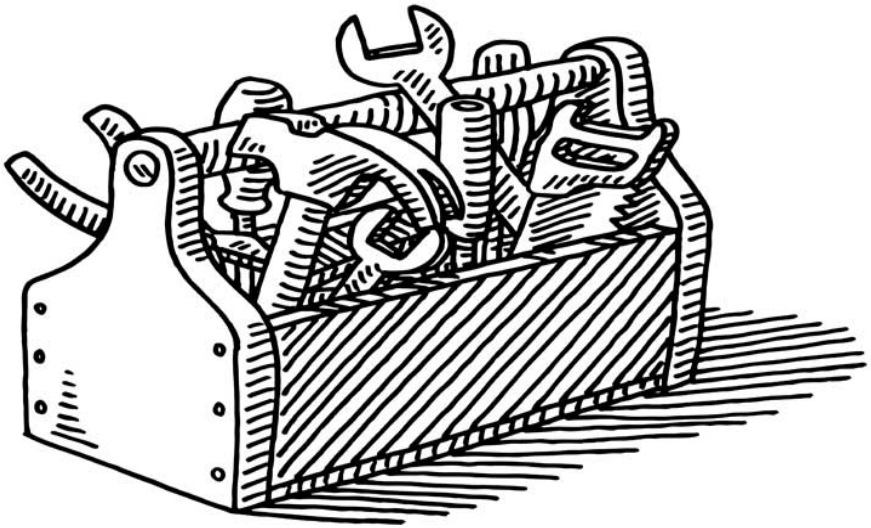
The importance of ethical culture at work

ETHICS LEADERSHIP 01 Jun 2015



Ethics at work shouldn't come from a toolkit

By **DR EVA TSAHURIDU**

An ethical culture is not some screwdriver to be pulled out of an ethics toolkit.

There is a lot of room for optimism in how we understand ethics at work and in business. In the 1990s, when I started researching **business ethics**, many people would react with, "Isn't business ethics an oxymoron?" Or, "Business ethics – must be a really short course."

For decades, in many work contexts, ethics was something that couldn't be discussed. Managers would mask decisions motivated by ethical concerns with language that lacked moral content, as it was the only way they could make them acceptable for a business audience.

This phenomenon – the moral muteness of managers – was identified and reported by ethics researchers. In those days, some business people would even say that ethics is OK for Sunday but

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