

# *Ethical leadership & culture*

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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](http://www.volkswagenag.com)

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# 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/>

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## 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](http://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](http://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](http://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](http://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



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# the invisible gorilla

Christopher Chabris and Daniel Simons



[www.theinvisiblegorilla.com/gorilla\\_experiment.html](http://www.theinvisiblegorilla.com/gorilla_experiment.html)

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# EMPLOYEE ENGAGEMENT

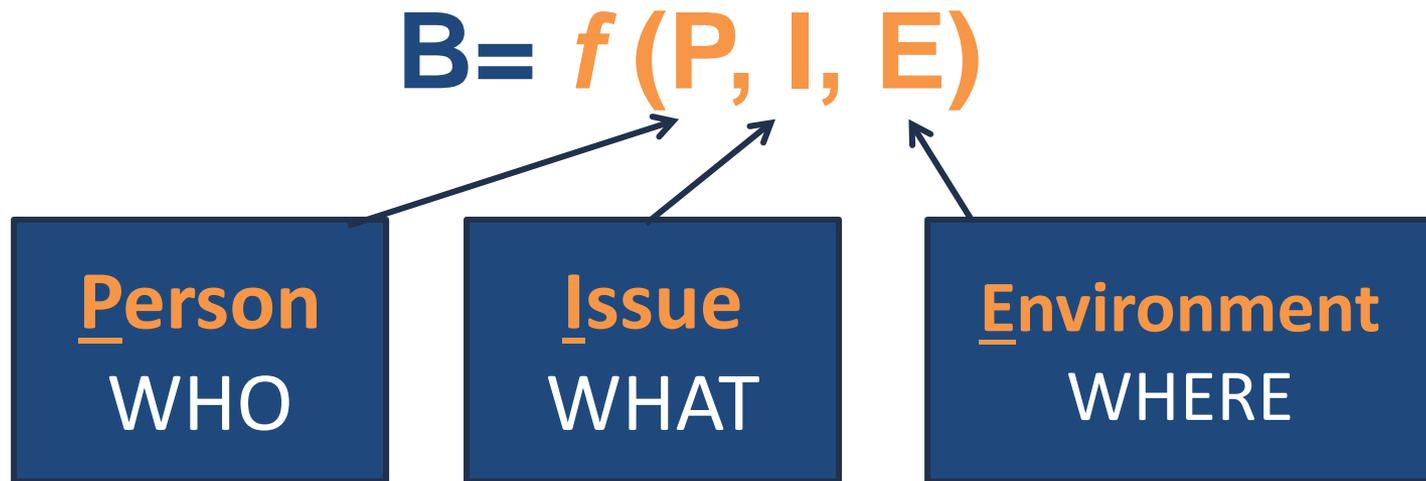
- 24% of employees worldwide are "actively disengaged"
- 13% of employees worldwide are "engaged"
- 70% of U.S. Workers Not Engaged at Work

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

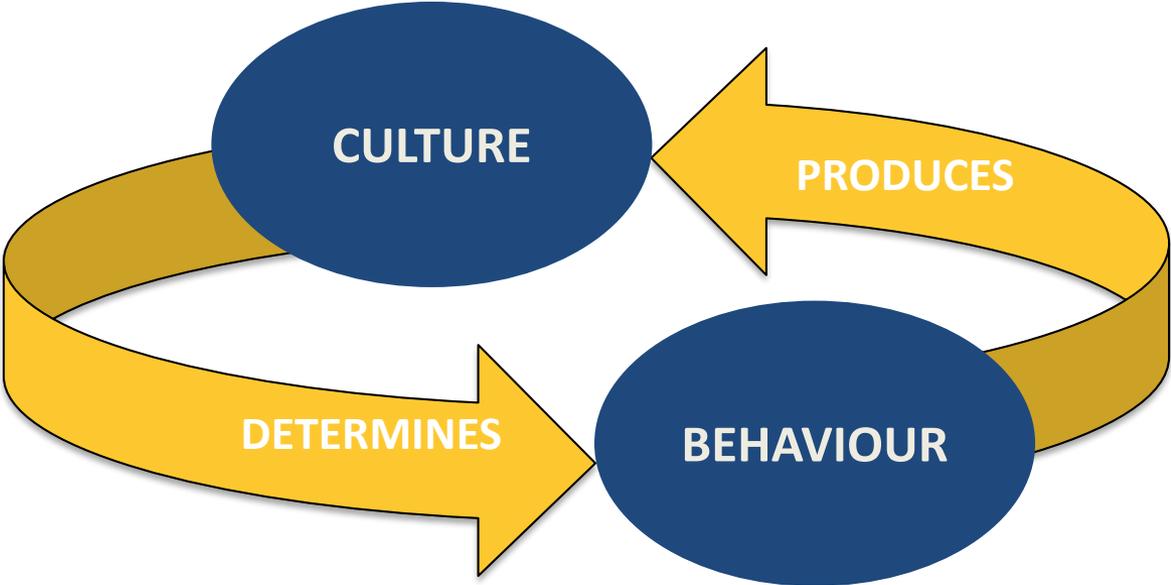
Strong  
Vs  
Weak

Something  
the  
organisation  
*HAS* or *IS*?

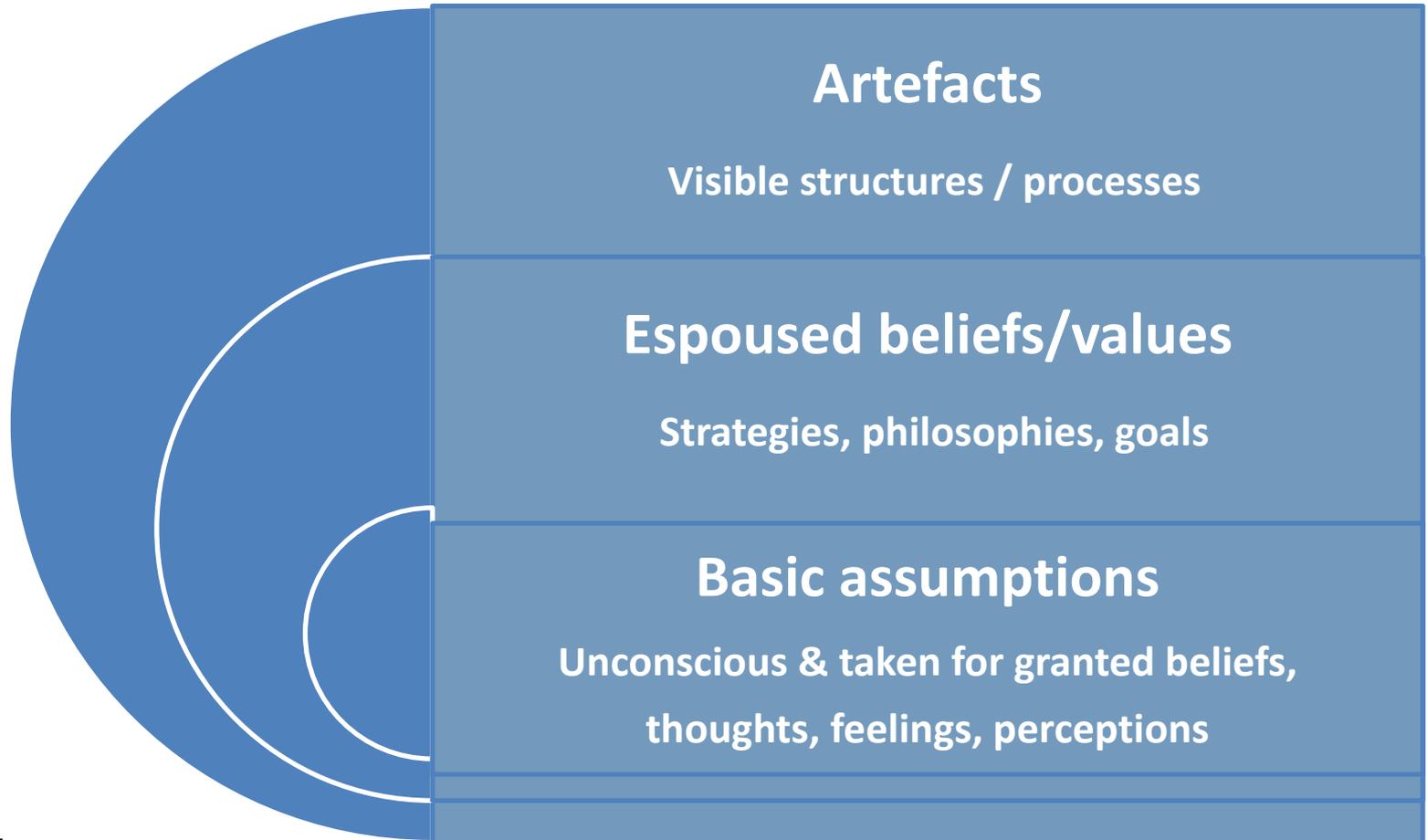
Managed  
(top down)  
or  
Emergent?

One  
or  
Multiple?

# CULTURE AND BEHAVIOUR



# DISECTING CULTURE



Schein, 2004

# LEADERSHIP & CULTURE



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# 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](http://intheblack.com/topics/ethics)

The screenshot shows the intheblack.com website. At the top, there is a navigation bar with the logo 'INTHEBLACK LEADERSHIP · STRATEGY · BUSINESS' and a search icon. Below the navigation bar is a banner for the '2016 CPA CONGRESS' with the tagline 'CONNECTING THE BIGGEST MINDS' and a 'FIND OUT MORE' button. The main content area is titled 'Ethics' and features a 'SORT BY' dropdown menu set to 'LATEST'. There are five article cards, each with a small image, a title, a date, and a short description. To the right of the articles is a section titled 'CLICK TO DOWNLOAD THE ETHICS EBOOK' featuring a large image of the ebook cover 'ETHICAL BUSINESS LESSONS' by Dr Eva Tsamiridou. Below the ebook cover is a short paragraph of text.

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## Ethics

SORT BY: LATEST ▼

- The eyes have it: Why we're more ethical when we're being watched** | 01 Oct 2016  
At a time when information is widely accessible and easily shared, the message is clear: transparency is more important than ever.
- How unethical behaviour can harm our health** | 01 Sep 2016  
Unethical behaviour at work can negatively impact the mental and physical health of everyone involved – not just the victims.
- Culture is key to understanding wrongdoing in the workplace** | 01 Aug 2016  
Your best insurance against a rogue employee bringing your company to its knees is a strongly ethical workplace culture.
- Breaking bad: 6 warning signs that your organisation has taken a wrong turn** | 01 Jul 2016  
Misconduct in the workplace is not always underpinned by personal goals – sometimes it is intended to benefit an organisation.
- Cultural accountability in corporate Australia is not a choice** | 22 Jun 2016  
Because norms and no-nonsense action mechanisms, but how to deal with the cultural problems in

CLICK TO DOWNLOAD THE ETHICS EBOOK

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### ETHICAL BUSINESS LESSONS

INSIGHTS FOR SOLVING ETHICAL BUSINESS DILEMMAS  
DR EVA TSAMIRIDOU

intheblack.com CPA

While most of us want to do the right thing, sometimes we fail to adequately consider all aspects of a situation or are influenced by human limitations in perception and thinking. This collection can help.

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## The importance of ethical culture at work

ETHICS

LEADERSHIP

01 Jun 2015



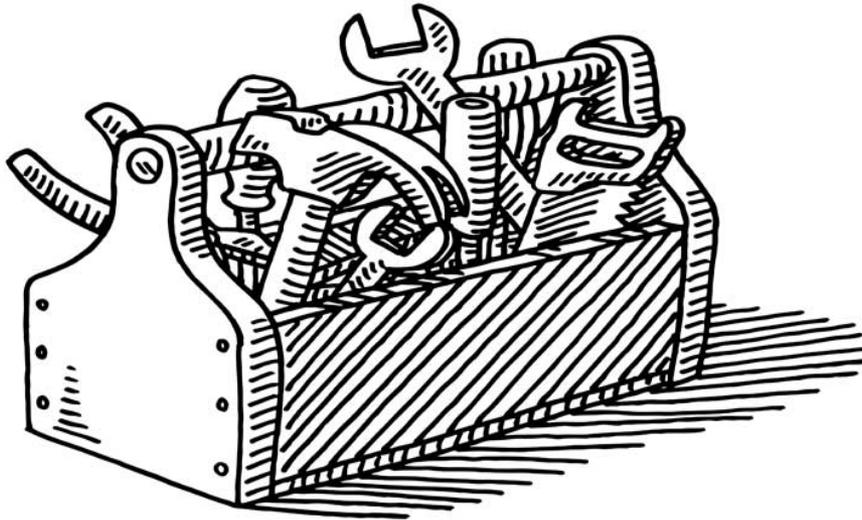
By DR EVA TSAHURIDU

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



Ethics at work shouldn't come from a toolkit