Creating & Sustaining Organizational Integrity Through Ethical Cultures

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Mission

To assist business leaders in creating ethical and profitable business cultures at the enterprise, community, and global levels.

Background

✓ Over 35 year old nonprofit organization
✓ Began partnering in 1988 with University of St. Thomas
✓ Member of the Advisory Group to the US Sentencing Commission
✓ Advises Boards and Executive Leaders on “Tone at the Top”
✓ Building a Bridge Between Thought and Practice Leadership
What Type of Person Do You Want To Be?

The Parable of the Sadhu
The Parable of the Sadhu

As McCoy, would you have carried the sadhu to safety?
or...
Left him to his own resources?
“Teleopathy”

- The unbalanced pursuit of purpose (goals) in either individuals or organizations.
- A practical response to this mindset is ethics.
- The principal symptoms of teleopathy are: fixation, rationalization, and detachment.
Teleopathy

- **Fixation** on tangible goals or purposes without moderation.
- Tendency to *rationalize* or deny responsibilities and realities that might impede the accomplishment of those goals or purposes.
- Separation of the ethics of business goals from the ethics of everyday life leads to emotional *detachment* from the full human implication of pursuing those goals.
Antidotes to Teleopothy

- **Fixation** to *perspective*...understanding that the goals we set for ourselves are part of a larger mission.

- **Rationalization** to *frankness*...practice, practice, practice telling the truth when exaggeration or denial appear attractive.

- **Detachment** to *engagement*...learning to keep the “head” (what we have to do) and the “heart” (how we do it and who it affects) in healthy communication.
Scanning the Environment
177 COUNTRIES. 177 SCORES. HOW DOES YOUR COUNTRY MEASURE UP?

The perceived levels of public sector corruption in 177 countries/territories around the world.
### Who Do You TRUST?

How much do you TRUST each institution to do what is right?

<table>
<thead>
<tr>
<th>Percent</th>
<th>America’s US/Canada/Brazil</th>
<th>Europe France/Germany/Russia</th>
<th>Asia China/Japan/India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business 2009</td>
<td>36/45/67</td>
<td>30/34/52</td>
<td>62/63/71</td>
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<tr>
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<td>54/na/62</td>
<td>36/40/52</td>
<td>62/77/67</td>
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<td>Business 2012</td>
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<td>71/47/69</td>
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<td>62/58/64</td>
<td>44/48/70</td>
<td>74/52/81</td>
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<tr>
<td>Business 2014</td>
<td>58/62/70</td>
<td>45/57/45</td>
<td>77/53/79</td>
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<tr>
<td>Govt. 2009</td>
<td>30/51/51</td>
<td>34/36/48</td>
<td>72/45/42</td>
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<tr>
<td>Govt. 2010</td>
<td>46/na/39</td>
<td>48/43/38</td>
<td>74/42/43</td>
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<tr>
<td>Govt. 2011</td>
<td>40/52/85</td>
<td>49/33/79</td>
<td>88/51/44</td>
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<tr>
<td>Govt. 2012</td>
<td>43/56/32</td>
<td>41/33/26</td>
<td>75/25/53</td>
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<tr>
<td>Govt. 2013</td>
<td>53/58/33</td>
<td>49/48/29</td>
<td>81/32/57</td>
</tr>
<tr>
<td>Govt. 2014</td>
<td>37/51/34</td>
<td>32/49/27</td>
<td>76/45/53</td>
</tr>
</tbody>
</table>

Source: 2013 and 2014 Annual Edelman Trust Barometer
Ethical Breakdowns in the News

Is it one bad apple?

- Purdue Pharma
- Bristol Myers-Squibb
- Google & Yahoo (China)
- Toyota Safety Recalls
- Financial Services Sector Meltdown
- Royal Dutch Shell
- BP Amoco Oil Spill
- Denny Hecker
- Tom Petters
- Bernie Madoff
- Societe Generale
- PetroChina
- AGA Medical Co.
- Ahold
- Bear Stearns
- Sanlu

- Morgan Stanley
- Putnam
- Qwest
- UnitedHealth Group
- BUCA
- Siemens
- Hewlett Packard
- Parmalat
- Cendant
- Computer Associates
- KPMG
- Hyundai Motor
- Boeing
- American Red Cross
- Johnson & Johnson

Not Just a US Phenomena
And It Continues…
How Do You Measure-Up?

Rating the honesty and ethical standards of people and professions (very high/high):

- **Nurses**: 85% / 82%
- **Medical Doctors**: 70% / 69%
- **Police officers**: 58% / 54%
- **Clergy**: 52% / 47%
- **Accountants**: (43% in 2011) / NA
- **Bankers**: 28% / 27%
- **Local Office Holders**: NA / 23%
- **Business Executives**: 21% / 22%
- **Lawyers**: 19% / 20%
- **State Office Holders**: NA / 14%
- **Members of Congress**: 10% / 8%
- **Car Salespeople**: 8% / 9%

Source: Gallup Poll: Honesty and Ethics December 2012 (December 2013).
Misconduct at Work

Source: Ethics Resource Center's 2013 National Business Ethics Survey

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Reporting Misconduct

Source: Ethics Resource Center's 2013 National Business Ethics Survey
Cheating Among College Students

- **56%** of MBA candidates surveyed admitted they had cheated at least once*
  - “culture of greed within MBA schools”
  - “get it done at all costs”
  - “shifting priorities from meeting customers’ needs to protecting shareholders profits”

- Versus **45%** of law students surveyed*

- **54%** of accounting majors report cheating in college**
  - Of this group, **82%** report cheating in high school

- **52%** of non-accounting majors report cheating in college**

* Source: McCabe, Butterfield & Trevino, September 2006
** Source: Morris & Kilian 2006 Do Accounting Students Cheat?
The Cost of Ethical Breakdowns

58% of victim organizations do not recover any fraud-related losses.

Over 40% of fraud detected through tips.

2008: U.S. organizations lose 7% of annual revenues (estimated value ~ US$994 billion)

2010: typical organization loses 5% of annual revenues (estimated value ~ US$2.9 trillion worldwide)

2014: typical organization loses 5% of annual revenues (estimated value ~ US$3.7 trillion worldwide)

Source: ACFE 2014 Report to the Nation on Occupational Fraud & Abuse
Building & Sustaining Ethical Cultures

Celebrating over 35 years of business commitment to ethical cultures.
Two Languages of Business

Financial Performance

Behavioral Performance

ALIGN/MISALIGN

TELEOPATHY
Legislative/Regulatory Theme

“...requirement that an organization shall promote an organizational culture that encourages *ethical conduct* and a commitment to compliance with the law.”

But can you *legislate* integrity?
Driving Ethical Culture: The US Legislative/Regulatory Response

✓ Sarbanes-Oxley Act of 2002
✓ Public Company Listing Exchanges
✓ United States Sentencing Commission
✓ Dodd-Frank Act of 2010
✓ SEC Rule Making (2011-2012)
Global Regulation of Organizations

- The Anti-Bribery Convention of the OECD, 1999 (www.oecd.org)
- The International Chamber of Commerce’s Rules Against Extortion and Bribery (www.iccwbo.org)
- The Lima Declaration Against Corruption (www.transparency.org)
- The Organization of American States Inter-American Convention Against Corruption (www.oas.org)
- The national laws of most countries
What is an Ethical Culture?

- Based on Integrity
- At the minimum discerns and chooses right versus wrong:
  - Laws and Regulations
  - Societal Standards/Values
- Reaches for the higher standard in the gray areas when all options seem right
- Relies on values to define acceptable behavior
How Do You Create Ethical Culture?

CEBC Model of Ethical Culture

- Leadership Effectiveness
- Stakeholder Balance
- Values Driven
- Long-term Perspective
- Process Integrity
Measuring Ethical Culture
Global Employee Perspectives: Ethical Perception Index

- Ethics themes benchmarked through Kenexa’s WorkTrends™, an IBM company, with employees around the world

- **CEBC Ethics Themes:**
  - ✔ Senior management practices ethical conduct
  - ✔ Company serves interest of multiple stakeholders
  - ✔ Co-workers behavior consistent with values
  - ✔ Able to discuss ethical issues/concerns
  - ✔ Must demonstrate company values to get ahead

- **The Ethics Themes:** Integrated to form an Ethics Index

- **Globally**
  - ✔ By Country
  - ✔ 30+

- **U.S.**
  - ✔ Multi year trends
  - ✔ By Industry
  - ✔ By Job Type
  - ✔ Correlated to business performance and employee engagement indicators
The CEBC Ethical Perception Index by Country

- 13 Country Analysis
- Minding the Gap
- Strong/Weak Culture

Cambridge University Press – Ethical Business Cultures in Emerging Markets

Ethical Insights: Working Across Cultures - Business and Ethics in China

Ethical Cultures in BRIC

Table 2 Summary of characteristics of business cultures in BRICs and the US

<table>
<thead>
<tr>
<th>Country</th>
<th>Paternalistic</th>
<th>Particularistic (situational)</th>
<th>Universalistic</th>
<th>Collectivistic</th>
<th>Individualistic</th>
<th>Formal</th>
<th>Informal</th>
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Ethical Perception Index
The **CEBC Ethical Perception Index**

by The Gap

The Gap – Means

- **CQ7_3** - Where I work, ethical issues and concerns can be discussed without negative consequences.
- **CQ7_4** - My organization’s senior management supports and practices high standards of ethical conduct.
- **CQ7_6** - My organization strives to serve the interests of multiple stakeholders (e.g., customers, employees, suppliers, and community), not just the shareholders.
- **CQ7_7** - The behavior of the people I work with is consistent with my organization’s mission, vision, and values.
- **CQ7_8** - Where I work, people do not ‘get ahead’ unless their behavior clearly demonstrates my organization’s values.

Source: Kenexa, an IBM Company, 2012 WorkTrends™
Strong/Weak CEBC EPI by Outcomes

Source: Kenexa, an IBM Company, 2012 WorkTrends™
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The CEBC Ethical Perception Index by MEBC

24+ WT Indices

EPI

MFAW

MOP

Job Satisfaction
Organizational Commitment
Willingness to Recommend
Intent to Stay
Innovation
Competitiveness
Product Quality

Ethical Perception Index
The CEBC Ethical Perception Index by MEBC

24+ WT Indices

Leadership Effectiveness

Stakeholder Balance

Values Driven

Long-term Perspective

Process Integrity

MFAW

MOP

Job Satisfaction

Organizational Commitment

Willingness to Recommend

Intent to Stay

Innovation

Competitiveness

Product Quality

Ethical Perception Index
The Ethical Risk Manager

Modern Risk Management

Modern risk management through the lens of the ethical organizational culture

Modern Risk Management: Managing risk through the ethical business culture model

ROUND 2: Modeling Modern Risk Management (MRM) & the Modern Risk manager (MRm)

With Peter Young, Torben Andersen @ Copenhagen Business School & the Veritas Institute
Revisiting The Parable of the Sadhu
Questions?
For Information on CEBC

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