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Investigator
Pinnacle Investigations, Inc.

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The seven deadly sins of unethical organizations

- » Unethical conduct in organizations is often explained by certain qualities of the organization's culture.
- » Seven problem qualities ("seven deadly sins") are conceit, cronyism, cult, dread, desperation, disregard, and disdain.
- » The presence of any of the seven deadly sins should serve as a wake-up call to the organization, warranting self-examination.
- » If many of the seven deadly sins appear in an organization, it is highly likely that unethical conduct will occur.
- » Organizational reflection and dialogue about actual or potential problems stemming from culture is very important.

A few years back, I attended a presentation by a United States attorney on the prosecution of business crime. The presenter covered a range of cases she had handled that resulted in criminal convictions of various business executives. All of the conduct discussed was plainly in violation of the law. Yet all of the people were highly educated and knowledgeable about business—none were even arguably ignorant victims of circumstance. At the end of the presentation, the attorney was puzzled. How can this be? How can we continue to move from business scandal to business scandal, when all of the conduct is plainly wrong and the persons committing it are clearly smart and knowledgeable enough to know better?



Cross

I suppose that the term "human nature" comes to mind. Crime and other improper conduct have been with us throughout our existence. They are an unfortunate part of the human condition, apparently. True enough. But as to organizational crime and other unethical behavior, my experience told

me that there must be more. Yes—humans often act solely in their self-interest, and too often they ignore rules and regulations, and even basic standards of human decency. But organizations have norms—they have rules and regulations, policies and procedures, and most have core values. They have legal, compliance, and risk management staff. Why aren't these enough to make unethical or illegal organizational behavior rare?

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I reflected quickly on the attorney's puzzlement. I was pretty sure that I knew the answer to her question. The answer: It's the culture. Many organizations have environments that foster improper behavior. These environments are usually created over many years, often resulting from who leads the organization, what they value, and how

they act. Indeed, my experience has shown me that there are several specific organizational qualities that, at minimum, increase the chance of illegal or unethical behavior and may even cause it.

So at the conclusion of the attorney's presentation, I decided to speak with her and provide my take—as a manager, lawyer, and compliance professional—on the basis of unethical organization conduct. I said that although I cannot say that these are all of them, based on my business experience, here are the top seven organizational qualities that foster and often lead to unethical or illegal conduct in business—the “seven deadly sins.”

1. Conceit

Management's legitimate goal is to coordinate the work of others to achieve the maximum benefit for the organization. Management takes skill, both technical and interpersonal. It's a hard job, worthy of praise when done well. For some, though, it goes far beyond this. Management becomes a calling, entitling the manager to elevated status and power. Taken to its extremes, managers buy into the role so much that they actually think they are better, smarter, more worthy, etc., than all others—especially those being supervised.

This level of arrogance is harmful, and it blinds people to any objective evaluation of their actions. John Dean, of Watergate infamy, spoke of this in a post-Watergate interview. The interviewer asked him how an extremely bright and highly educated attorney like himself could possibly have committed a series of plainly dishonest and unethical

acts. The answer: It was the arrogance. After a while, you tell yourself that you can do anything; and simply because you decide to do it, in your mind, it can't be wrong. Good managers fight—and overcome—this tendency. Too many do not, though, and too often from there they give themselves license to do anything, whether ethical or not.

2. Cronyism

Most organizations promote and reward on merit, but not all. Some managers empower and reward based on similarity of outlook and views, membership in similar organizations, friendship, or personal loyalty. These managers seek to build, often successfully, a personal power base of loyal followers through selective rewards and punishments not based on merit. This collective power base grows in number and becomes a powerful internal organizational

constituent. Those who may question decisions of members of this group face opposition from many politically powerful people—not just one. This creates a strong barrier to reporting misconduct, and it insulates the group from any effective review by “outsiders.” And those in this crony club become highly insular. They want no outside perspective and they receive none. They have no one to tell them that they're doing wrong. And even if they did, they wouldn't believe it anyway.

3. Cult

In some cases, the organization becomes more than a place to work. It becomes an entire life itself, with employees becoming blindly loyal

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to the organization or, more commonly, to specific people within it. These people actually behave like cult members. They blindly follow the direction of others, regardless of whether the direction is appropriate or not. Questioning is disloyalty that must be punished by expulsion from the group. Cult-like organizations are immune from any self-critical review or improvement. Of course whatever management directs us to do is proper; if it weren't, we wouldn't have been asked to do it!

4. Dread

Organizations differ substantially in climate. Some are friendly and inclusive, focused on employee engagement and contribution.

Others are oppressive. They use employees as mere instruments, considering them as means only, not ends. These organizations neither solicit employee input nor do they tolerate any dissent, or even a difference in perspective. Those in control of these organizations care about achieving their own goals, and will run over anyone that gets in their way. There is little discussion of right or wrong in these companies. It is not considered relevant. Those who raise issues like this are branded troublemakers who don't stay around very long.

5. Desperation

In the 1982 movie **An Officer and a Gentleman**, Drill Sergeant Emil Foley (played by Louis Gossett Jr.) sought to muster officer candidate Zack Mayo (played by Richard Gere) out of the flight officer program by subjecting him to various humiliations, including grueling physical drills in cold,

driving rain. Mayo refused to give up—partly due to personal resolve, but mostly, in the end, because “I got nowhere else to go!” This is similarly true for employees in some organizations. They remain blindly loyal—and are certainly not willing to risk dismissal for speaking out against misconduct—because they are afraid to lose their jobs and believe that there is nothing else available to them. Unfortunately, this is a valid concern for many. Sometimes it is due to an economic

downturn that reduces available employee options. Other times it is because the employee lacks skills that are highly marketable to other organizations (the employee's skills are a “commodity”—although having value, they are possessed by many others in the employment market).

This phenomenon further insulates those engaging in business misconduct from review. No one dares raise their heads to see, or hands to report, misconduct when the risk is too high. Too many “rank-and-file” workers feel this way. Many times management espouses an open workplace, without the fear of retaliation, but its tight control and willingness to exact retribution speaks otherwise. Employees engage in unethical conduct because they receive explicit or implicit instructions to do so, and they believe they have no other alternative.

6. Disregard

In many cases, *after* the discovery of significant business misconduct, we hear the refrain: “Where were the lawyers?” Where indeed? Usually, they were there. The organization had them in place—*firmly* in place—and made

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it clear, directly or indirectly, that they either were “team players” or they were not. Team players are there to endorse and ratify the course of conduct set out by those in power in the organization. They are not to make trouble by “inappropriately” identifying risk or, even worse, by publicly stating that a proposed action is in violation of the law. Their job, as defined directly or indirectly by their organizations, is to (at most) identify some risk, but at the end of the day, not to serve as a barrier, but to approve whatever organizational activity or program is presented to them. As Jeffrey Skilling was quoted to have said to Vince Kaminski of Enron’s Risk Management group: “There have been some complaints, Vince, that you’re not helping people to do transactions. Instead, you’re spending all your time acting like cops. We don’t need cops, Vince.”¹ It looks like they needed some, though.

7. Disdain

Companies have several types of managers. Former CEO Jack Welch breaks this down well in his book *Jack: Straight from the Gut*. Love him, loathe him (or anything in between), Welch was right on the money when he characterized managers as: (1) Type 1—delivers on commitments and shares the organization’s values; (2) Type 2—doesn’t deliver on commitments and doesn’t share the values; (3) Type 3—misses the commitments, but shares the values; and (4) Type 4—delivers on all commitments, but doesn’t share the organization’s values.² As Welch points out, dealing with the first two types is easy.

Reward the first and disassociate with the second. Type 3 managers should receive second—maybe third—chances or a change in environment. It is how the organization deals with the Type 4 manager that is the real test. Too often, Welch notes, organizations tolerate these managers—who typically force performance out of people rather than inspiring it and who often act as autocrats, tyrants—even bullies. These managers, even though they “make the numbers,” often harm

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the organization’s culture so much that they end up being “net negatives.” Solid business performance and accompanying financial gains do not make up for destruction of an organization’s culture, especially if it promotes unethical conduct. How can an organization that

allows Type 4 managers be an organization with *real* values? These managers, by definition, don’t share and certainly don’t model the organization’s values. And if the organization lacks effective values, it is ready to stray off the ethical path—if it has not already done so.

Reflections

Okay, where does all this leave us? I don’t know about you, but reading back over this myself, I’m nearly depressed. This seems to paint a bleak picture of organizations. Can it really be this way?

Well, in many (maybe most) cases, it is not. There are excellent managers and sound organizational cultures out there. This list does not mean to imply that these problems are endemic, nor that the existence of one or two of these qualities means that unethical

conduct permeates the organization. If I may, I would analogize this list to lists often placed in front of possible substance abusers. These lists set out a number of behaviors and ask the recipients to reflect on whether they display any of the listed qualities or often exhibit any of the listed behaviors. If none apply, substance abuse is probably not an issue. But if one or more apply, there is a likelihood of substance abuse. If many or all apply, substance abuse is nearly certain to be present.

It is this way with organizations and ethics. If one or two of the “seven deadly sins” appear, but only from time to time, there is still the possibility that a culture that fosters unethical conduct exists, but it may not. The presence of any of these qualities, however, merits organizational reflection on whether there is a cultural problem likely to breed unethical conduct. If many of these qualities are present, however, that—by itself—does not mean that

unethical conduct will result. But there is a high likelihood that it will.

This list should serve as a tool to promote reflection and one that could form the basis of some good organizational dialogue—formal or informal. Do we see these things in our organization on any consistent basis? When and under what circumstances? Do we ever do anything about it? If so—what? If not—why not? This sort of reflective dialogue could go a long way toward identifying potential ethical problems. This, hopefully, would assist in turning around the organization’s culture before the organization develops an engrained way of being that often leads to a climate ripe for unethical behavior. *

1. Eichenwald, Kurt: *Conspiracy of Fools: A True Story*. New York: Broadway Books, 2005.
2. Welch, Jack: *Jack: Straight from the Gut*. New York: Warner Books, 2003.

John Cross (jdcrossiii@cox.net) is Managing Counsel at VPI Pet Insurance in Brea, CA.

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