



Linking Culture to Ethics and Risk Using the Strategic Culture Framework

Caterina Bulgarella, Ph.D.
Culture Architect & Ethics Advisor in collaboration with SAI Global

Ethical Failures Are a Growing Concern

Rising costs

Volkswagen's diesel scandal costs hit \$30 billion

By Reuters Staff | 2015-09-24 10:00 AM
September 24, 2015 10:00 AM EDT



3 things you need to know about the Volkswagen scandal

The costs of Volkswagen's diesel emissions scandal continue to soar.

Legal Troubles Take A \$1 Billion Bite Out Of Wells Fargo Third Quarter Earnings



(Photo: Rex USA/Reuters/Getty Images)

It's becoming personal

Samsung's Bribery Charges



San Francisco, California (Reuters) - Samsung Electronics Co., a South Korean electronics giant, is accused of bribing police officers to help it win a bid for a South Korean government contract.

Uber CEO Travis Kalanick resigns



Domino effects

THE DOMINO EFFECT OF THE ODEBRECHT BRIBERY SCANDAL IN COLOMBIA



Domino effect of Harvey Weinstein's sex harassment scandal

It's the weeks since the fall of Harvey Weinstein, there has been a flood of allegations of sexual harassment involving other powerful men. And it's not over yet.

Regulators expect more



SEC MEMORANDUM CIRCULAR NO. 33

Series of 2016

TO : PUBLICLY LISTED COMPANIES
SUBJECT : CODE OF CORPORATE GOVERNANCE FOR PUBLICLY LISTED COMPANIES
DATE : 23 November 2016

To promote the development of a strong corporate governance culture and keep abreast with recent developments in corporate governance, the Commission in its 4th meeting (23 November 2016) resolved to approve the Code of Corporate Governance for Publicly Listed Companies ("CCG Code for PLC's").

The CCG Code for PLCs supersedes the following Memorandum Circulars:

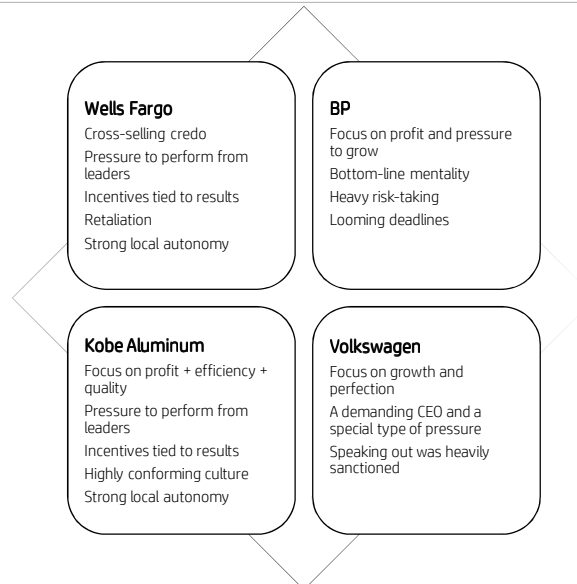
1. SEC Memorandum Circular No. 4, Series of 2007 (Updated Code of Corporate Governance);
2. SEC Memorandum Circular No. 6, Series of 2011 (Three Levels for Independent Directors);
3. SEC Memorandum Circular No. 23, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
4. SEC Memorandum Circular No. 24, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
5. SEC Memorandum Circular No. 25, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
6. SEC Memorandum Circular No. 26, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
7. SEC Memorandum Circular No. 27, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
8. SEC Memorandum Circular No. 28, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
9. SEC Memorandum Circular No. 29, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
10. SEC Memorandum Circular No. 30, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
11. SEC Memorandum Circular No. 31, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
12. SEC Memorandum Circular No. 32, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
13. SEC Memorandum Circular No. 33, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
14. SEC Memorandum Circular No. 34, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
15. SEC Memorandum Circular No. 35, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
16. SEC Memorandum Circular No. 36, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
17. SEC Memorandum Circular No. 37, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
18. SEC Memorandum Circular No. 38, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
19. SEC Memorandum Circular No. 39, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);
20. SEC Memorandum Circular No. 40, Series of 2013 (Guidelines for the Board of Directors and Key Officers of Publicly Listed Companies to Strengthen Corporate Governance);

"The enforcement actions we are issuing today make clear that the OCC will take forceful action, not only when the institutions we supervise engage in wrongdoing, but when management fails to exercise the oversight necessary to ensure that employees follow laws and regulations intended to protect customers and maintain the integrity of markets."

—Thomas J. Curry, Comptroller of the Currency, November 2016



Framing Ethical Risk – A Few Examples



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Understanding the Link Between Culture, Ethics, and Risk ⁽¹⁾

- The more the pressure points, the harder it is to make good decisions. In a VUCA world
 - Policies fall short
 - Values are easily overridden
- A gap between stated values and what the organization actually values
 - Creates ambiguity and uncertainty
 - Adds complexity to what people have to address on a daily basis



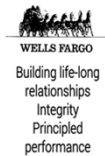
We have integrity
We are reliable
We serve
We lead



Service
Improvement
Transparency
Teamwork



Trust and
Quality



We fly right
We fly friendly
We fly together
We fly above and beyond



Be authentic
Inspire
Don't sacrifice truth
Meritocracy wins



Respect
Integrity
Communication
Excellence

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Understanding the Link Between Culture, Ethics, and Risk (2)

- People overestimate the sturdiness of their ethics
- Unethical behavior is much more likely when people experience conflict of interest and find ways to rationalize their conduct
- Cognitive and emotional depletion affects our ability to do the right thing
- It's easier to fend off explicit requests than pressure to perform

10'
60%
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The Two Culture Dimensions That Create the Most Risk

Culture is the organizing principle of what a company values

It underscores what an organization values and prioritizes

Delegation of Ethical Dilemmas

Ethical Capacity

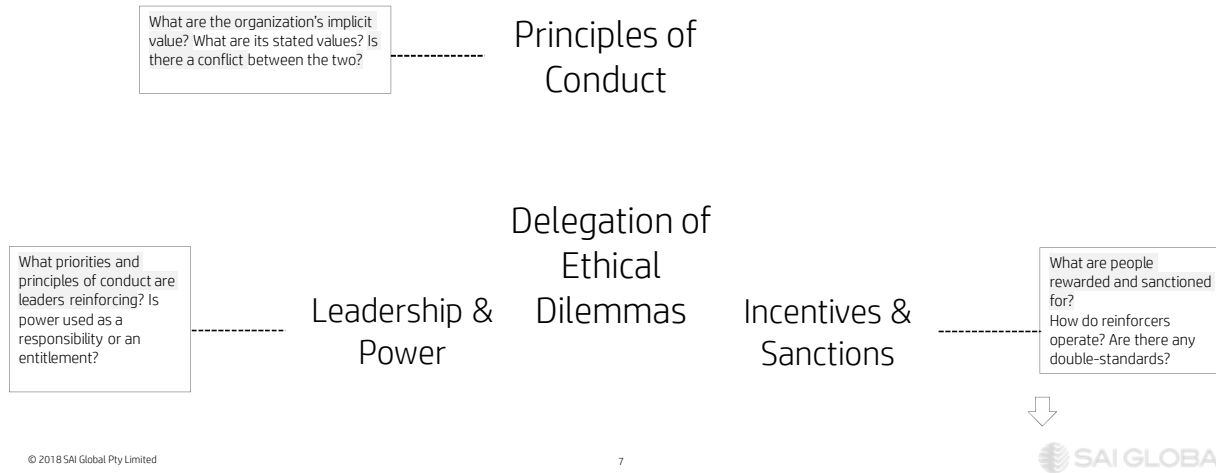
It entails the contextual factors that affect how people respond to ethical dilemmas

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SAI's Global Strategic Culture Framework: Part 1



Delegating Dilemmas Is Dangerous



Symptoms of Delegation of Ethical Dilemmas

- Lack of principles or unclear principles – Assuming that people can figure it out
- **We must do it all (x & y & z)**
- **Business is business** (it's ok to talk about values, but let's get back on track and focus on business)
- People cannot stop talking about revenue

Demanding results and not taking responsibility (e.g., “**I don't care how you get it done, just get it done**”)

- Using power to patronize expertise and competence (e.g., “I know this business better than you”)
- **Managers do not show any vulnerability in relation to competing priorities**

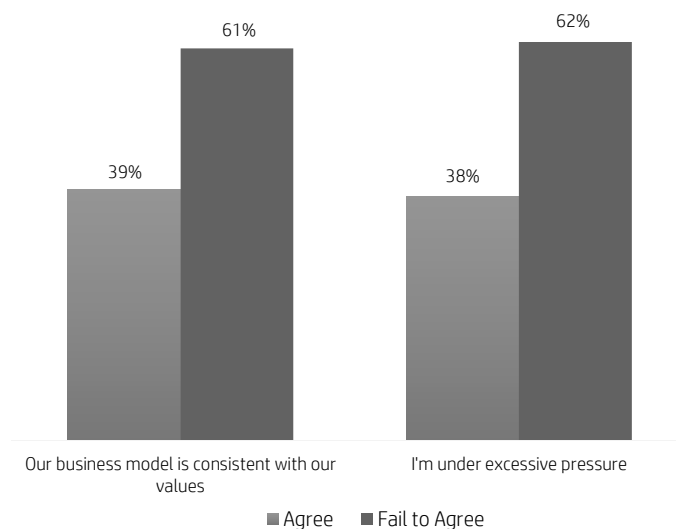
- **There are clear rewards for achieving results but not clear penalties for cutting corners**
- There is an annual ethics award, but everybody evaluates career prospects based on performance only
- **Penalties for not meeting performance goals exceed penalties for acting unethically**
- Abuses of power are treated with a slap on the wrist

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Delegation of Ethical Dilemmas in the Banking Sector



Misconduct has cost the banking sector more than \$200 billion over the past 10 years

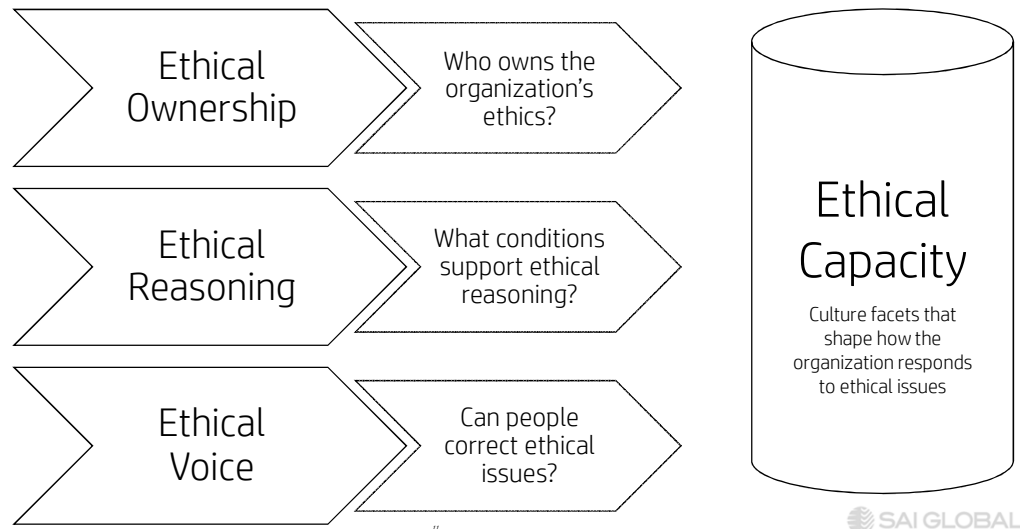
- The larger the gap, the more likely employees are to report that their firm is prioritizing profit over customer outcomes
- The smaller the gap, the more likely employees are to indicate that leaders walk the talk

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SAI's Global Strategic Culture Framework: Part 2



Evidence That Ethical Capacity Works Like a Muscle



ETHICAL REASONING

- Selective recollection and moral leniency applied to self
- Loyalty to group creates justification for unethical behavior
- Unfairness increases cheating
- Competition, especially in the presence of specific goals, leads to unethical behavior
- Creativity generates cognitive ease and a false sense of control



ETHICAL OWNERSHIP

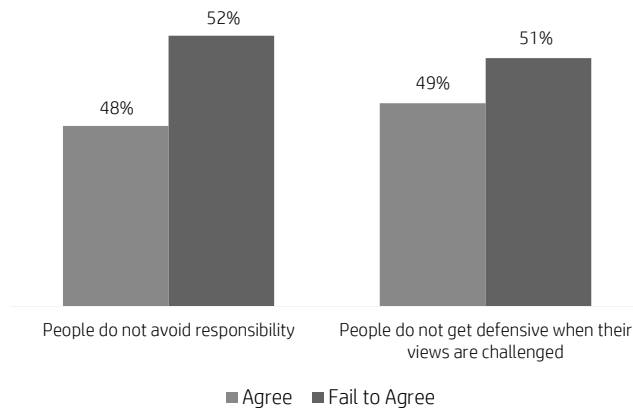
- Diffusing responsibility and/or minimizing the consequences of our actions reduce agency and increase moral disengagement
- If we feel responsible, we pay attention to our behavior; if others set standards for us, we wait on them to make decisions for us



ETHICAL VOICE

- Confidence in self and available means increase employee engagement
- Fear of futility suppresses voice
- Fear of retaliation underscores unethical conduct

Ethical Capacity in the Banking Sector



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The cost of misconduct in the banking sector is likely to approach \$400 billion by 2020

- Firms with less accountability are characterized by silos
- These firms do not solicit employee feedback before implementing change
- A fear and blame culture is quite widespread in these organizations



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Symptoms of Low Ethical Capacity

Ethics and compliance are treated as a requirement
 When an ethical issue arises, you hear "this is not our problem; let's call the compliance team"
 There is a tendency to assign blame (e.g., a few bad apples)

Employees believe it's more important to fit in than to do the right thing
 There is no time to address pressure points, grey areas, and implications for behavior
 Conversations about voice, diversity and inclusion, and ethics are shallow









- People believe that is better to keep low and quiet
 - HR or Compliance tell employees "are you sure you are happy here?" after a report / complaint is filed
- People are reminded about the futility of their voice (e.g., what do you gain from speaking up? etc.)
 Employees have no idea how the information they share is used

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Predicting Risk – Wells Fargo

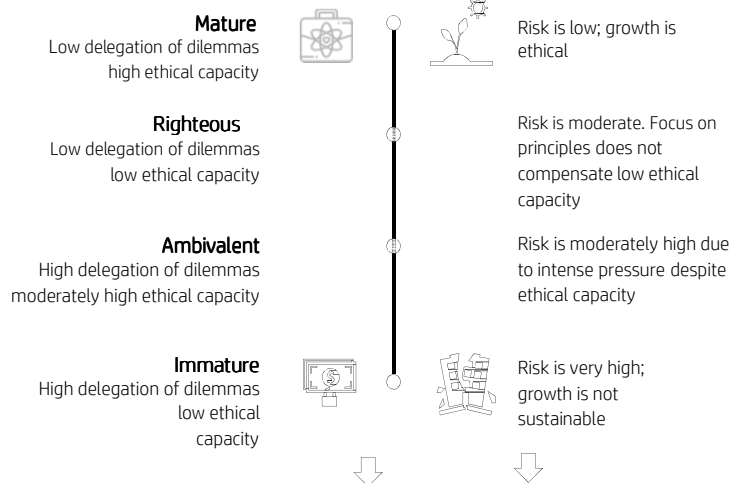
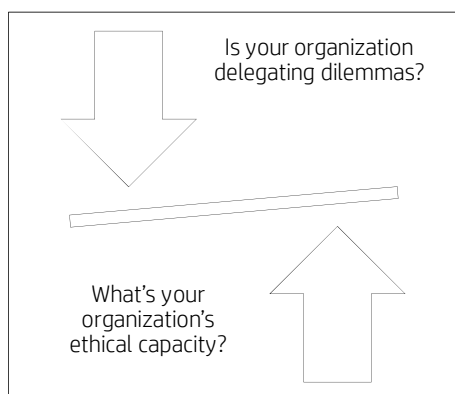
Culture Determinants		Wells Fargo's Profile	Level of Risk
 <i>Is the organization delegating dilemmas?</i>	Principles of Conduct	Strongly at odds values. On the one hand, Wells Fargo proclaimed its commitment to the customer and fostering trust. On the other, it pushed customers as many products as possible.	
	Leadership & Power	Siloed and autonomous leadership principles. Local leaders used their influence to force overly ambitious goals over employees.	
	Incentives & Sanctions	Incentives were tied to cross-selling. Salespeople received 15–20% of bonus compensation if they met their sales goals. 1% of the workforce was let go between 2011 and 2016.	
 <i>What's the organization's ethical capacity?</i>	Ethical Ownership	According to Wells Fargo, the businesses owned ethics. Yet, leadership framed the scandal as a "compliance and operations" problem.	
	Ethical Reasoning	The compliance and ethics program trained employees to spot conflicts of interest and provided them with a Code of Conduct. Though valuable, these resources were insufficient to cope with the sales pressure employees faced on a daily basis.	
	Ethical Voice	Wells Fargo fostered a culture in which threat, intimidation and retaliation played a significant role. Eventually, 5% of the workforce denounced the sales practices that occurred across the organization.	

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Where Is Your Organization Today?

Two Guiding Questions



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Assessment Process: Key Considerations



PRINCIPLES OF CONDUCT

- What are the organization's stated values? What do they mean?
- What does the organization value in the face of difficult decisions?
- What criteria are given priority within specific contexts (e.g., hiring, promoting, etc.)?
- How frequent are certain dilemmas?
- What conditions are likely to override ethical considerations?

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LEADERSHIP AND POWER

- Are leaders walking the walk?
- How do leaders exercise power?
- What criteria are used to hire and promote leaders?
- How do leaders behave under pressure?



REWARDS AND SANCTIONS

- What are the organization's formal rewards/sanctions?
- What is implicitly recognized, rewarded and sanctioned?
- What behavior gets reinforced in case of a trade-off between ethics and business?

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Assessment Process: Key Considerations (continued)



ETHICAL OWNERSHIP

- What's the responsibility of business?
- How does compliance work with business leaders?
- How is ethics framed in the organization?
- What goals do stakeholders hold in relation to ethics?
- How is stakeholder accountability monitored?

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ETHICAL REASONING

- What resources do currently support ethical reasoning?
- What factors constrain reasoning at work?
- What types of dilemmas are people able to detect?
- Is there an open/honest dialogue about pressure points?



ETHICAL VOICE

- What channels are available? How effective are they?
- Where/how can people practice their voice?
- What's the value/cost of voice and silence?
- How does the organization follow up on voice/silence?
- Do people feel in control of voice practices?

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A Pathway to Proactive Risk Mitigation

