Managing for Organisational Integrity

Prof Ronald Jeurissen
2012 Gourlay Visiting Professor of Ethics in Business

RACV Club, October 3
From Europe to Australia
Nyenrode Business University, Breukelen, Netherlands
Trucks ...
Frogs...

...are bigger
So are football teams…
AU = NL^2
Women…

…are richer
‘WALL STREET, WE HAVE A PROBLEM’
“Financial intermediation depends on trust and confidence: the trust and confidence that savers who invest funds have in those they choose to manage these funds, and the trust and confidence of investors in the businesses they support.”
Three Aspects of Professional Integrity

- Integrity as rule
- Integrity as dialogue
- Integrity as conscience
1. Integrity of management

+ Ethically neutral

- Unethical

+ Ethically effective

- Hypocritical

2. Management of integrity
Characteristics of CEOs involved in corporate scandals

- Excessive financial incentives
- ‘Sun King’ behaviour
- High press coverage prior to their fall
- Unrealistic growth targets
- Non-intervention by non-executive or supervisory board members
- 40% drop in share price prior to the scandal

-------------------------------

- Formal corporate governance does not matter
The Hubris Syndrome

• Initial resounding success
• Exaggerated self-confidence
• Contempt for the advice of others
• Not accountable to peers
• Loss of contact with reality, often associated with progressive isolation
• Messianism
• Nemesis

THE HUBRIS SYNDROME
Bush, Blair and the Intoxication of Power

‘Absorbing, clear, lively and persuasive, I think David Owen is right’ Matthew Parris

DAVID OWEN
New Edition
The Bathsheba syndrome

- Initial resounding success
- Loss of strategic focus in success
- Unrestrained control of organisational resources
- Inflated belief in personal ability to control outcomes

David and Bathsheba (1562), by Flemish painter (1510-1575)  
Conclusions about the Group Executive Management Committee:

- **GEMC are not operating as a team**
- **Conversations are typically bilateral**
- **Performance targets consume too much of the agenda**
- **Discussions often seem bullying in nature**
- **The atmosphere is often negative and is at a low point currently**
Lesson for managers
1. Integrity of Management

Ethically neutral

Unethical

Ethically effective

Hypocritical

2. Management of Integrity
Managing for organisational integrity

**Culture**
- Leadership
- Values
- Informal Norms
- Language

**Structure**
- Decision Processes
- Rules/Policies
- Reward System
- Selection System

**Alignment**
- Ethical Behaviour
STORIES OF ARTHUR ANDERSEN
ORGANISATIONAL CULTURE IN A HOUSING

1 Ethical Discussibility
2 Ethical approachability
3 Commitment
4 Sanctionability
5 Follow up on reports
6 Organisational fairness
<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>In general, this company treats its employees fairly</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Employees in this organization are rewarded fairly</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Employees are treated with dignity and respect in this organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Important decisions about employees are made in an unbiased manner here</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TWO STRATEGIES FOR THE MANAGEMENT OF ORGANISATIONAL INTEGRITY

Rules-based
Responsibility-based
Characteristics of a Rules-based Strategy

- **Objective:** prevent misconduct
- **Ethos:** conformity with organisational standards and the law
- **Leadership:** corporate legal
- **Methods:** reduced discretion, auditing and controls, penalties
- **Behavioural assumptions:** people are guided by self-interest
RULES ….. MEANINGFUL?
RULES ..... CLARITY?
RULES..... COMPLIANCE?

‘Bicycles stationed here will be removed’

The police
Characteristics of a responsibility strategy

• Objective: enable responsible conduct
• Ethos: self-governance according to chosen standards
• Leadership: management
• Methods: education, leadership, dialogue
• Behavioral assumptions: responsible social beings, guided by values
RULES WHEN NECESSARY; RESPONSIBILITY WHEN POSSIBLE

RULES-BASED STRATEGY

RESPONSIBILITY STRATEGY
Integrity Management Audit Framework

7 core themes
- Vision, ambition and goals
- Values and norms
- Awareness and management development
- Measurement, accountability and governance
- Integrity architecture
- Stakeholder involvement
- Legal compliance

22 normative elements

Operational criteria

3 Levels of development and certification
Some recommendations for managers

• Gnothi seauton: know yourself.

• Understand the culture of your organisation.

• The integrity of your organisation should and can be managed.

• Empower your employees to take responsibility.

• ‘Tone at the top, listen to the bottom’.