



RECOMMENDATIONS FOR BUILDING AND MAINTAINING

AN ETHICAL HIGH PERFORMANCE CULTURE

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Executive summary

Triggered by the Panama papers leak in April 2016 and the VW emissions scandal in 2015, this white paper investigates how and why organisations end up taking unethical actions and what can be done to avoid them. In particular, it looks at scandals uncovered in large firms, often with previously good reputations and recommends some practical steps that business leaders can implement to grow and sustain an ethical business culture.

'...we have to ask how usually honest, intelligent, compassionate human beings could act in ways that are callous, dishonest, and wrongheaded.'

Saul W. Gellerman, HBR 1986

Another day, another ethics scandal

The Panama papers provided revelations about how national leaders, business leaders and other high profile, influential people use tax havens to obscure their wealth. Whilst the media and the public are rightly outraged by the *individuals* using these legal loopholes to hide their assets for either tax avoidance or criminal purposes, this scandal got the team at Mission Excellence thinking about it from a slightly different perspective. What about the *organisations* involved? This is about more than just the age old issue of good people doing bad things, so well described in Saul Gellerman's quote at the head of this paper. On the other side of the coin are the organisations enabling this to happen – what about Mossack Fonseca, the law firm which is the source of the leaked information? Or the global banks who used the company to avoid detection on behalf of their customers? These are large, powerful organisations where highly questionable ethical practices have been going on for a lengthy period.

This brought another example to mind - the VW emissions scandal, which erupted on a global scale in September 2015. The US Environmental Protection Agency (EPA) discovered that several models of VW vehicles had software 'defeat devices' fitted. These detected when the vehicle was being tested and reduced emissions to levels which would pass the test, but were inactive during normal use to improve vehicle performance, meaning nitrogen oxide emissions could be up to 40 times the allowable limit. The defeat devices were fitted to 11m cars worldwide, and may cost VW an estimated £8.8bn in recall costs plus more in fines and litigation, not to mention the reputational damage. The VW group lost 1/3 of its share price in the initial days after the scandal broke and the CEO eventually (although not initially) stood down. The fallout was exacerbated as it came to light just after a huge marketing US campaign about 'greener cars' with low emissions. In fact, in the quarterly report issued by VW just 11 days earlier, the CEO stated *'...our responsible approach will help to make us the world's leading automaker by 2018 – both economically and ecologically'*.

It seems like these examples are just the latest in a long list of firms that have fallen from grace over recent years. Enron's infamous collapse, banks knowingly selling toxic loans contributing to the 2008 economic crisis, the LIBOR scandal involving several global banks, Tesco's accounting irregularities and GM's faulty ignition switch are just a few of the many examples. In many cases these are companies whose public profile and the values that they espoused were completely misaligned with the activities and behaviours they were undertaking.

In many cases the issue stretched over years, involved a number of different departments and senior executives were either embroiled or at least complicit.

So how do profitable organisations with dependable, strong reputations slide so far down the ethical slope? And what's the solution to avoiding unethical practices in your organisation? Here are some practical steps that leaders and managers at all levels can implement.

Values and standards. If you get values, attitudes and behaviours right in the top team, the same standards will cascade through the organisation. Dan Ariely, author of *Predictably Irrational* and Professor of Behavioural Economics at Duke University, concludes that people will justify transgressions internally when they have examples of similar behaviour around them, particularly

senior figures. Role-modelling is where leadership earns its money. To start with, have you got a team charter for your staff? Specify the behavioural norms that you expect from yourselves and each other. By working on this as a team, and signing up to it collectively, you all have skin in the game as you've agreed to a common set of standards and ways to work together. As Robert Cialdini (author of *Influence: The Psychology of Persuasion*) says, people are far more likely to do something (and similarly NOT do something) if they've publically committed to it. **Agree a set of values and standards with your top team and hold each other to it.**

Be specific. Don't be afraid to be direct about what acceptable behaviour looks like, and what falls short. Stress the difference between observable behaviours and labels. It's very difficult to deny your action if it's described very specifically as something that can be seen by others. A label, on the other hand is essentially an opinion and is far easier to hide from. If your team is specific about what behaviour is acceptable or unacceptable, then there's nowhere to hide when someone transgresses. For example, 'bullying' or 'arrogance' are very subjective terms – one person's bullying is another's banter; one person's arrogance is another's confidence. Vague descriptions allow wriggle room for people to justify their transgressions in their own minds. Capture these in writing and make sure everyone has signed up to it. **Be specific in your code of conduct or team charter about what is acceptable and what is not.**

Meaningful feedback. Are you genuinely honest with each other or are you paying lip service to a culture of openness? Giving (and receiving) truly open and honest feedback is difficult, nobody denies that. At the same time, it is fundamental to establishing a culture of trust, high standards and effective communication. Positive feedback is important too, let's not forget that, but it's the constructive feedback about unhelpful or unacceptable behaviour which is the real test. Can you tell your boss or your colleague when they do something that just isn't right? Can your team feedback to you? Mission Excellence has worked with several senior teams using a methodology which encourages absolute honesty and we've found it's surprisingly rare that they've ever had these conversations. In some cases, it's been a game changer in their relationships and how they deal with each other. **Make sure your team is really committed to giving and receiving meaningful feedback.**

Act on the small things. If everyone is waiting for someone else to say something, it never gets said. A small deviation from the standard can rapidly become the new normal if it passes unmarked. It's then a slippery slope - if minor transgressions are sanctioned either explicitly or implicitly then it's easier to justify other unethical behaviours. Bernie Madoff, one of the largest financial fraudsters in history explains: *'...it starts out with you taking a little bit, maybe a few hundred, a few thousand. You get comfortable with that, and before you know it, it snowballs into something big.'* **Act on the small things to avoid the big ones later down the line.**

Set the conditions for empowerment. Empowerment is critical for a high-performing organisation, but only once you have the right values and behaviours embedded. Setting the boundaries so that all parties know what the individual responsibilities are, is a critical factor for successful empowerment. The failure to get this right in GM, one of the biggest automotive manufacturers, led to numerous fatal accidents. Knowledge of a flawed ignition switch was hidden within the company for years despite the problem being linked to the accidents. The subsequent investigation found that numerous people, including at senior levels, knew about it but had sat on the evidence for years refusing to order a recall of affected vehicles. There are also anecdotal reports from employees of gestures known as the 'GM Nod' or the 'GM Salute', used and widely understood to indicate that nobody was going to take either responsibility or action despite knowing that there was a problem. The failure to act on an issue that was known about for over a decade, and the link to over 100 deaths, has been admitted by GM. The company is still dealing with multiple compensation payouts and settlements, including one with the

US Department of Justice for over \$900m. Empower people in your organisation - **trust people to make decisions - but ensure you put in place clear boundaries and accountability first.**

You get what you reward. Fundamentally, Dan Ariely says '*it's not about bad people, it's about bad incentive structures*'. At VW, the overarching target was to become the biggest automotive company by 2018. Incentivising employees to meet that highly aggressive growth target – not the most respected, or the most ecologically sound but a hard, revenue-driven goal – makes it clear what the organisation's priorities are and rewards people who support that. This results in a blinkered focus on the ends – with less focus as to the ways it is achieved. When there is a choice between compromising ethical standards and meeting business performance targets (which link directly to your own performance targets), guess which will win... There is no shortage of high-profile cases along similar lines. Take Enron, which was lauded for its Code of Ethics, but in 2001 infamously went bankrupt after massive accountancy fraud. This was directly related to the laser-like focus from the CEO downward on keeping the stock price up, with the performance management and incentive scheme rewarding short-term, risky actions which supported this. **Be clear about the message your organisational objectives are sending out. Decide which behaviours you want to reward and incentivise them.**

Compliance is not the panacea. Can you be unethical but still be compliant with the rules? Almost certainly. No matter how specific the codes or regulations try to be (see above) in setting out acceptable behaviours and rules, there will always be some judgement calls or grey areas. In Michael Lewis' book *Flash Boys: A Wall Street Revolt* he argues that High Frequency Trading is an example of this. In simple terms, it allows banks to use algorithms to beat normal investors to the checkout when buying stocks. They buy them in the split second before you can complete the sale, and then sell them back to you at a higher price, pocketing the difference. It's entirely legal, but is it ethically sound?

The law firm behind the Panama papers, Mossack Fonseca, states that it has always acted in accordance with the law, but it's clear that there have been highly questionable ethics practiced to exploit the loopholes. Meanwhile the global banks who are also embroiled in the scandal may have used the firm for customers with links to tax evasion, money laundering, terrorist financing or other illegal activities. This is despite the dramatic increase in compliance departments that the banks have undergone since the global economic crisis. I suggest that compliance in isolation isn't going to eliminate unethical behaviour, whichever side of the law it falls on. Bankers are at least as clever as compliance officers, so this internal policing is likely to end up as a game of cops and robbers. And take into account the powerful financial incentives discussed above – unevenly weighted towards the 'robbers' side rather than the 'cops' – then the risk is likely to continue to be worth the reward. If your aim is to get people to buy-in to doing the 'right thing' rather than the 'compliant thing', **beware mistaking a compliance culture for an ethical culture.**

Never forget. As early as 1973, VW were investigated by the same US agency, the EPA, for using defeat devices which resulted in an out-of-court settlement. While this may be too long ago to be relevant to the people currently in the company, clearly the devices aren't exactly emerging technology or a new tactic. VW could reasonably have been expected to build in checks and controls against this happening. Look at the foreign exchange fixing scandal, where a group of traders from powerful global banks agreed to fix exchange rates for mutual benefit. This was still going on after the LIBOR interest rate fixing scandal became public. Individuals and organisations clearly hadn't taken the lessons on board (or the sanctions weren't enough of a deterrent). Corporations are prone to go into damage limitation mode when an issue hits the public and are keen to brush things under the carpet as quickly as possible. The normal process is to fire one or more scapegoats, release some 'regrettable' statements to the media quietly agree a financial settlement and get on with reinvention and/or disassociation. However, in the long run that's a route to the same or similar scandals

happening again. Non-defensive behaviour, from the CEO downwards, is critical to improving performance and not repeating the same mistakes. Mary Barra, the CEO of GM, who took over days after the ignition switch scandal broke, seems to be a refreshing example to look to. Speaking to her employees about the issue, her words were *'I never want to put this behind us...I want to put this painful experience permanently in our collective memories.'* The methodology that Mission Excellence uses with its clients helps organisations assess themselves objectively and with the right approach, allowing them to extract the maximum learning and capture lessons for future use. **Encourage non-defensive behaviour when reviewing your performance. Never forget about failures or mistakes.**

Rules for avoiding corporate scandals

1. **Values and Standards.** Agree a set of values and standards with your senior leadership team and hold each other to it.
2. **Be specific.** Be specific about what is acceptable behaviour or conduct and what is not.
3. **Meaningful feedback.** Make sure your team is genuinely committed to giving and receiving meaningful feedback.
4. **Act on the small things.** Act on the small things to avoid the big ones later down the line.
5. **Set the conditions for empowerment.** Trust people to make decisions, but ensure you have agreed clear boundaries and accountability first.
6. **You get what you reward.** Be clear about the messages your organisational objectives are sending out. Decide what behaviour you want to reward and incentivise it.
7. **Compliance is not the panacea.** Beware mistaking a compliance culture for an ethical culture.
8. **Never forget.** Encourage non-defensive behaviour when reviewing your performance. Never forget about failures or mistakes.

Mission Excellence partners with organisations genuinely committed to high performance. If you would like to talk about how we can partner with you to ensure your organisation has the ethical culture that you deserve then please contact us at info@missionexcellence.com.

About the author

Amy Cruickshank has 11 years' service as an Officer in the British Army, initially as an Engineering Officer in the REME, and then in subsequent specialist roles supporting Intelligence, Counter-Terrorism and Special Forces activities; she still serves as a reservist within a specialist Surveillance unit. Amy has experience of analysis, operations and leadership in the most demanding settings and first-hand exposure to the practical realities of risk and safety management. After leaving the Army, Amy led a team working on data utilisation at JP Morgan before joining Mission Excellence as a Programme Manager. Amy has a BSc in Mathematics (first-class honours) and an MSc in Data Analysis from the University of York, and a diploma in Strategic Management and Leadership from the Chartered Management Institute.

About Mission Excellence

Mission Excellence exists to partner with clients genuinely committed to high performance, to closing the gaps between objectives, plans and outcomes. We both consult and develop, leaving clients upskilled for sustainable performance improvement. Founded by a former Red Arrows pilot in 2003, the team now includes several former fighter pilots, a Head of Special Forces Aviation, a qualified psychologist, a former McKinsey consultant, a PhD, 2 MBAs and 2 holders of the OBE. Our offer forms a coherent whole: analysis and diagnosis of performance issues, improvement of individual and team capability through development programmes, increasing effectiveness through coaching and engaging the whole management body through high-impact interventions for conferences and management meetings.

We have a proven track record throughout the public and private sectors, in professional sport and support of academic programmes. Our client list includes 3M, Accenture, BP, GlaxoSmithKline, HSBC, IBM, Procter & Gamble, the National Health Service, NATO, Staffordshire County Council, British Cycling, Formula 1, Cancer Research UK and the University of Oxford.

For more details see www.missionexcellence.com or call 020 3143 4100.

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