

IMI CPD SERIES 2016

A PRACTICAL GUIDE TO ETHICAL LEADERSHIP

DR COLM FOSTER & ROS O'SHEA

- Corporate scandals
- The power of power to corrupt?
- Why do people make unethical decisions?
- Executive narcissism – cause or effect?
- Remedies
 - Governance structure
 - Leadership prescription

THE EFFECTS OF POWER





Corporate Scandals

THE WALL STREET JOURNAL.
EUROPE

Siemens to Pay \$1.34 Billion in Fines

The New York Times

Vast Mexico Bribery Case Hushed Up by Wal-Mart
After Top-Level Struggle

REUTERS

EU imposes record 1.47 billion euro
cartel fine on Philips, 5 others

the guardian

GlaxoSmithKline fined \$3bn after
bribing doctors to increase drugs sales

FINANCIAL TIMES

UK banks hit by record \$2.6bn US fines

The Washington Post
How VW's scandal threatens the reputation
of 'German engineering'

The New York Times

Former Siemens Executives Are Charged With Bribery

REUTERS

Wal-Mart pays lawyer fees for dozens
of executives in bribery probe

BBC

FBI on Fifa arrests: 'This is the World
Cup of fraud and today we are issuing
Fifa a red card'

the guardian

GlaxoSmithKline ex-boss to be deported
back to UK from China

Mark Reilly given three-year suspended prison sentence after
pleading guilty to bribery during one-day trial in Hunan Province

FINANCIAL TIMES

Wells Fargo chief faces lawmakers' fury
over scandal

TIME

New Justice Department Rules Aim
to Prosecute Executives in Corporate
Crime

Former RSA Ireland head denies culture of fear

Beacon Hospital employee resigns following procurement claims

‘Whistleblower’ jailed for claiming garda was corrupt

Price-fix inquiry on flooring contracts at Google HQ and other landmark buildings

HSE investigates Lloyds pharmacy prescription payments

Console founder ran up €500,000 in credit card bills

OCI chief Pat Hickey remains in hospital following arrest

NEWS

SPORT

BUSINESS

OPINION

LIFE & STYLE

CULTURE

ireland > **Irish News**

OCI pays little attention 'to ethical functions', report says

If recommendations implemented Pat Hickey's 28-year reign as president will end

🕒 about 9 hours ago

Updated: about 3 hours ago

Peter Murtagh, Ian O'Riordan



NEWS

SPORT

BUSINESS

OPINION

LIFE & STYLE

CULTURE

Crime & Law | **US Election** | **Ireland** | **World** | **Politics** | **Social Affairs** | **Health** | **Educ**

Áras Attracta manager successfully appeals prison term

Judge says HIQA must bear responsibility for 'shocking abuse of power' in which patients were abused at Mayo care facility

© Wed, Oct 26, 2016, 19:09

Tom Shiel





**Discuss any current ‘scandal’ with a partner
– what do you think is the root cause?**

THE POLITICS OF POWER



DOES POWER CORRUPT?

Corrupt people are more likely to seek and achieve power



Given the right circumstances, even good people will be tempted to do bad things



ARE YOU (OR SOMEONE YOU KNOW) SUCCUMBING TO THE TEMPTATIONS OF POWER?

- Do you.....
 - Interrupt people
 - Check your phone when others are talking
 - Tell jokes that embarrass or humiliate others
 - Swear at the office
 - Take credit for others' efforts
 - Arrive late for meetings
 - Leave meetings early

THE POWER EXPERIMENT

Low power condition

| Leader's choice | To leader | To 1 follower |
|-----------------|-----------|---------------|
| Default | 100 | 70 |
| Prosocial | 90 | 90 |
| Antisocial | 150 | 10 |
| Very antisocial | | |

High power condition

| Leader's choice | To leader | To each of 3 followers |
|-----------------|-----------|------------------------|
| Default | 100 | 70 |
| Prosocial | 90 | 90 |
| Antisocial | 150 | 50 |
| Very antisocial | 250 | 10 |

People randomly assigned as leaders or followers and to low or high power positions
The results affected the amount of money the people would actually be paid for taking part in the experiment

THE POWER EXPERIMENT

Before the experiment the % of people who said that the Default or Prosocial option was the correct one


100%

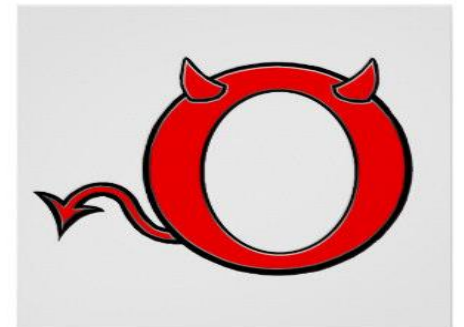
The % of people who actually chose an antisocial option

Low power condition

53%

High power condition

80%



- Honesty – had no moderating effect on the result
- High levels of testosterone amplified the effect !!



Bendahan, Zehnder, Pralong & Antonakis. Leader corruption depends on power and testosterone; The Leadership Quarterly, 26(2015), 101-122

EFFECTS OF POWER

- People in positions of power become more:
 - Self serving
 - Self-centered
 - Over confident
- They also develop a sense of entitlement and seem to be inoculated from the emotional effects their actions have on others
- They are 3 times more likely to; interrupt others, multitask during meetings, raise their voices and say insulting things at the office

....SO WHAT.....

Power makes people become more self-serving

It increases the temptation to act unethically.....even if you are basically an honest person

The effect is worse in MACHO cultures

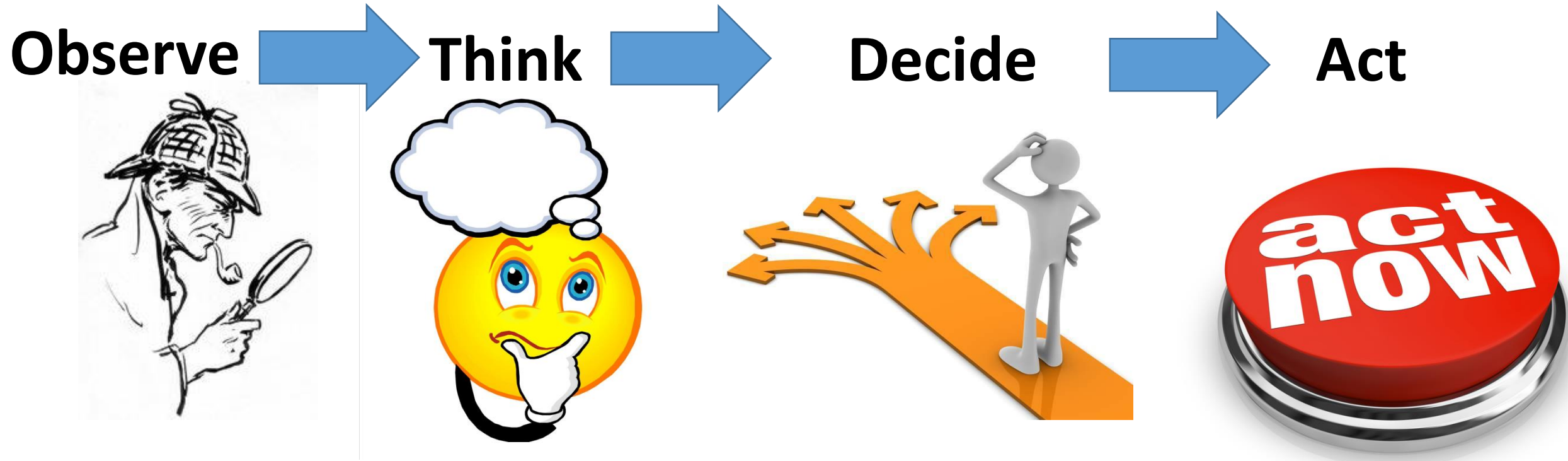


If we want people to act ethically, power is something we have to be very concerned about

WHY DO PEOPLE MAKE UNETHICAL DECISIONS?

- How do people make decisions ???

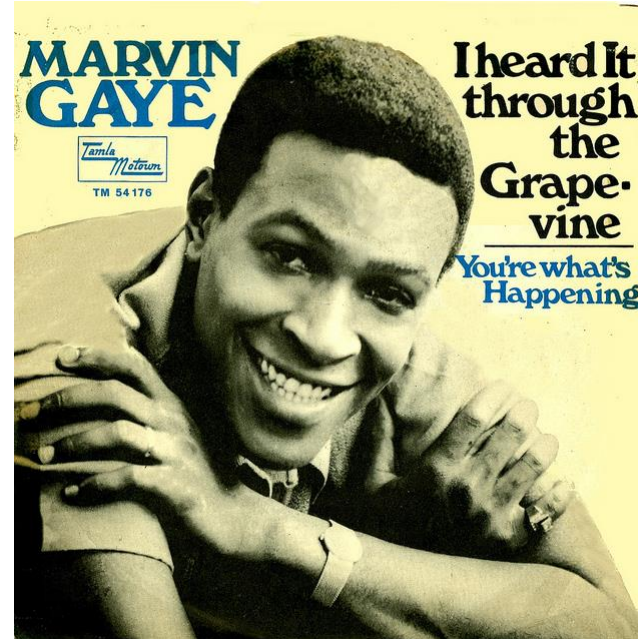
THE RATIONAL MODEL



MOST RELIABLE OBSERVATIONS.....



Read about it

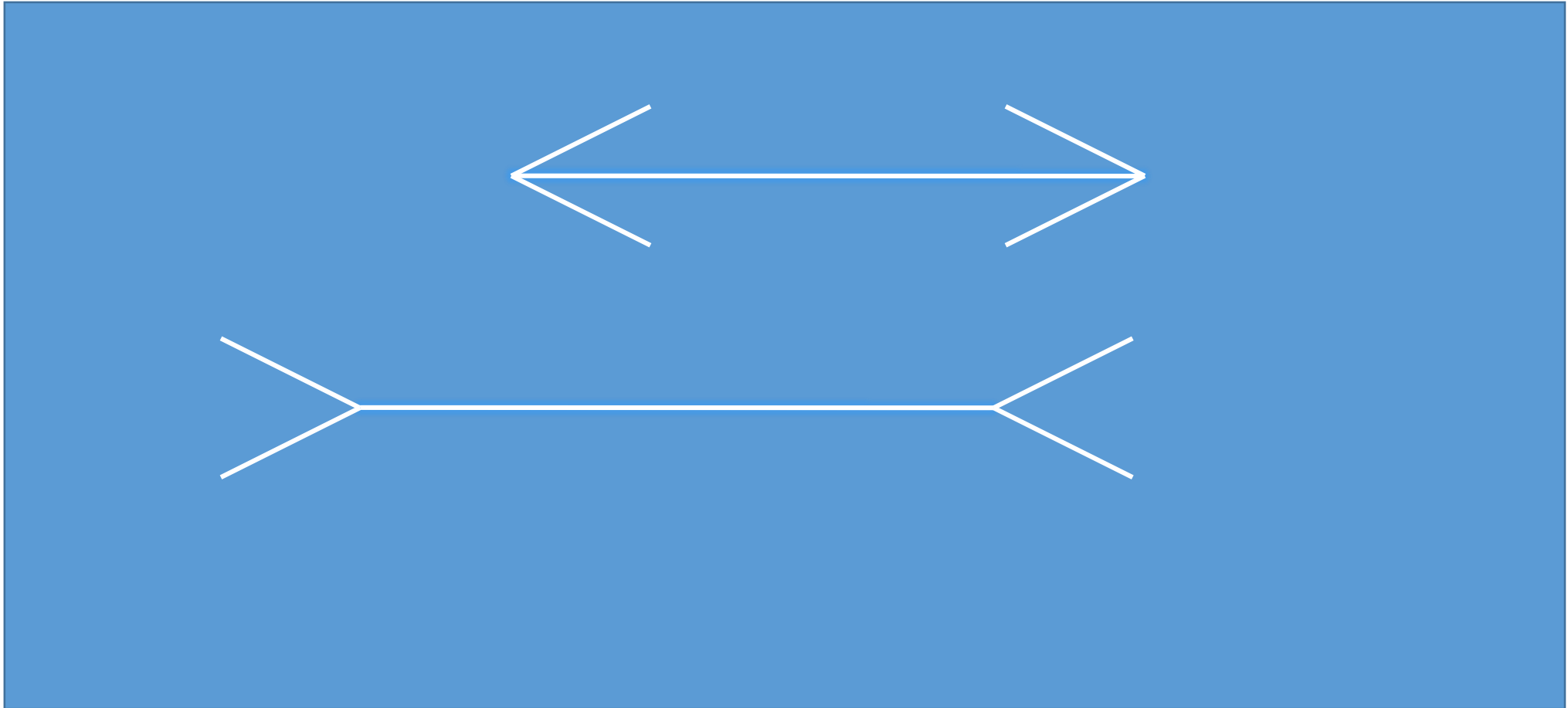


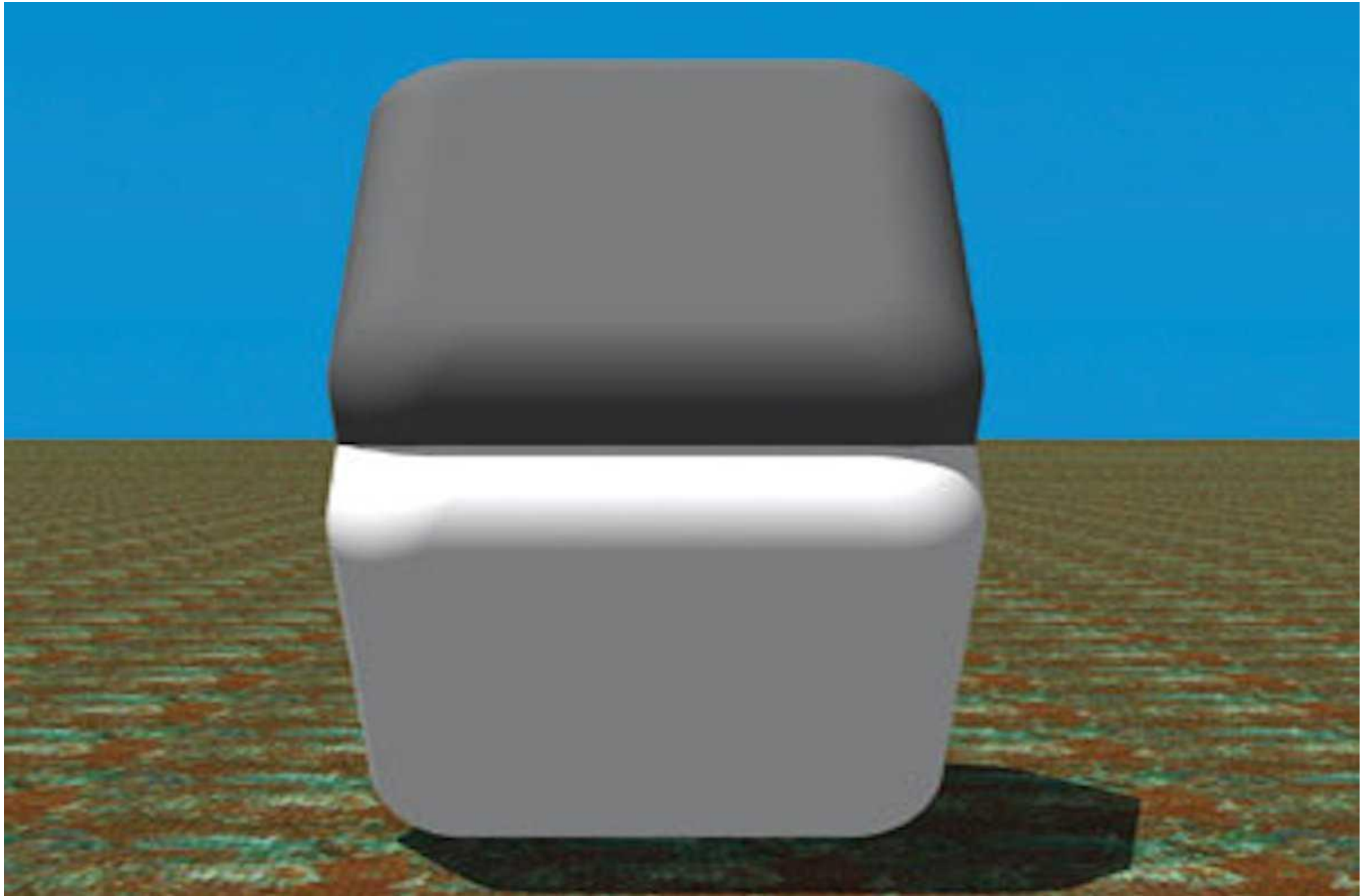
**Heard it
through the
grapevine**

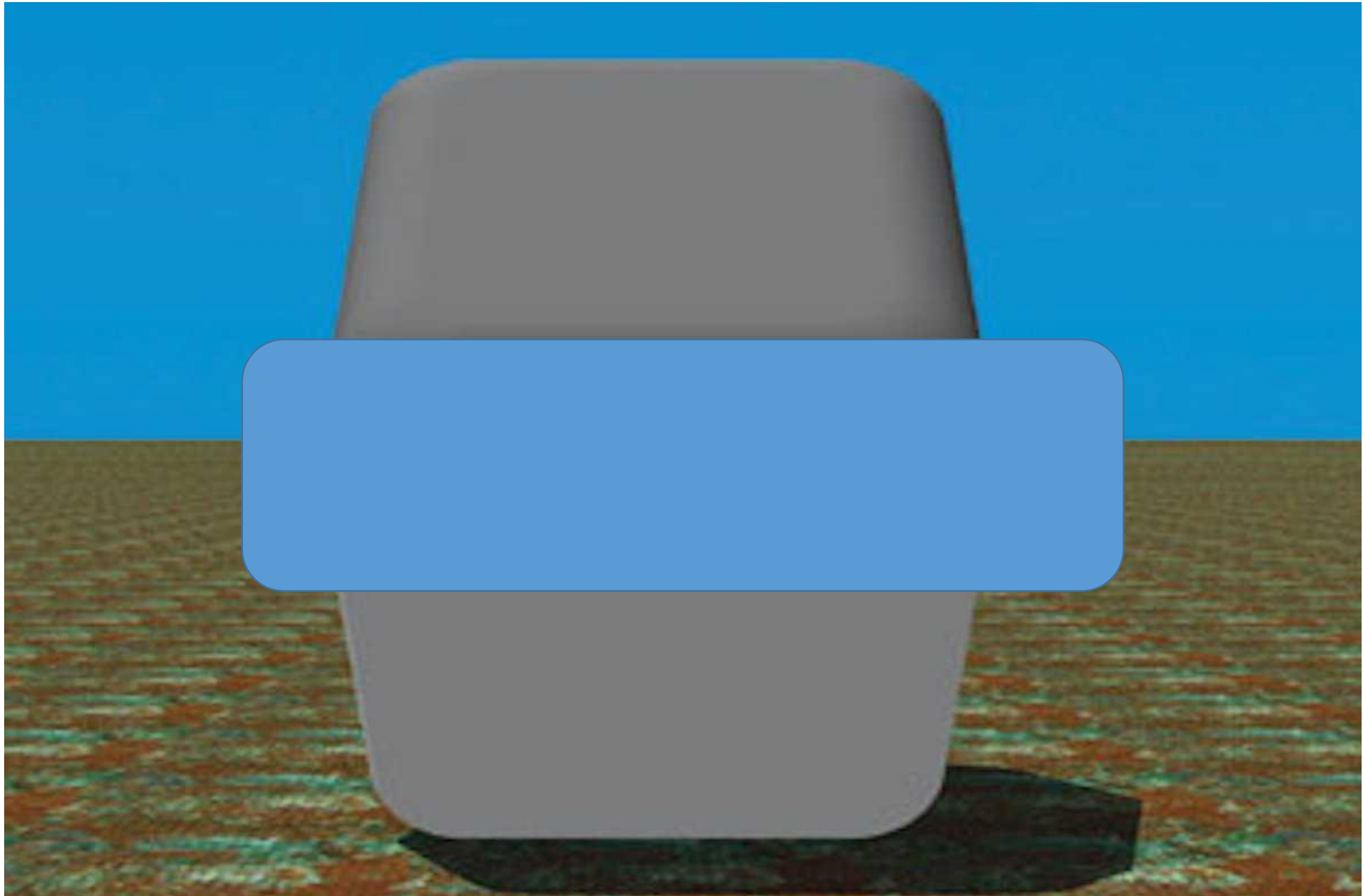


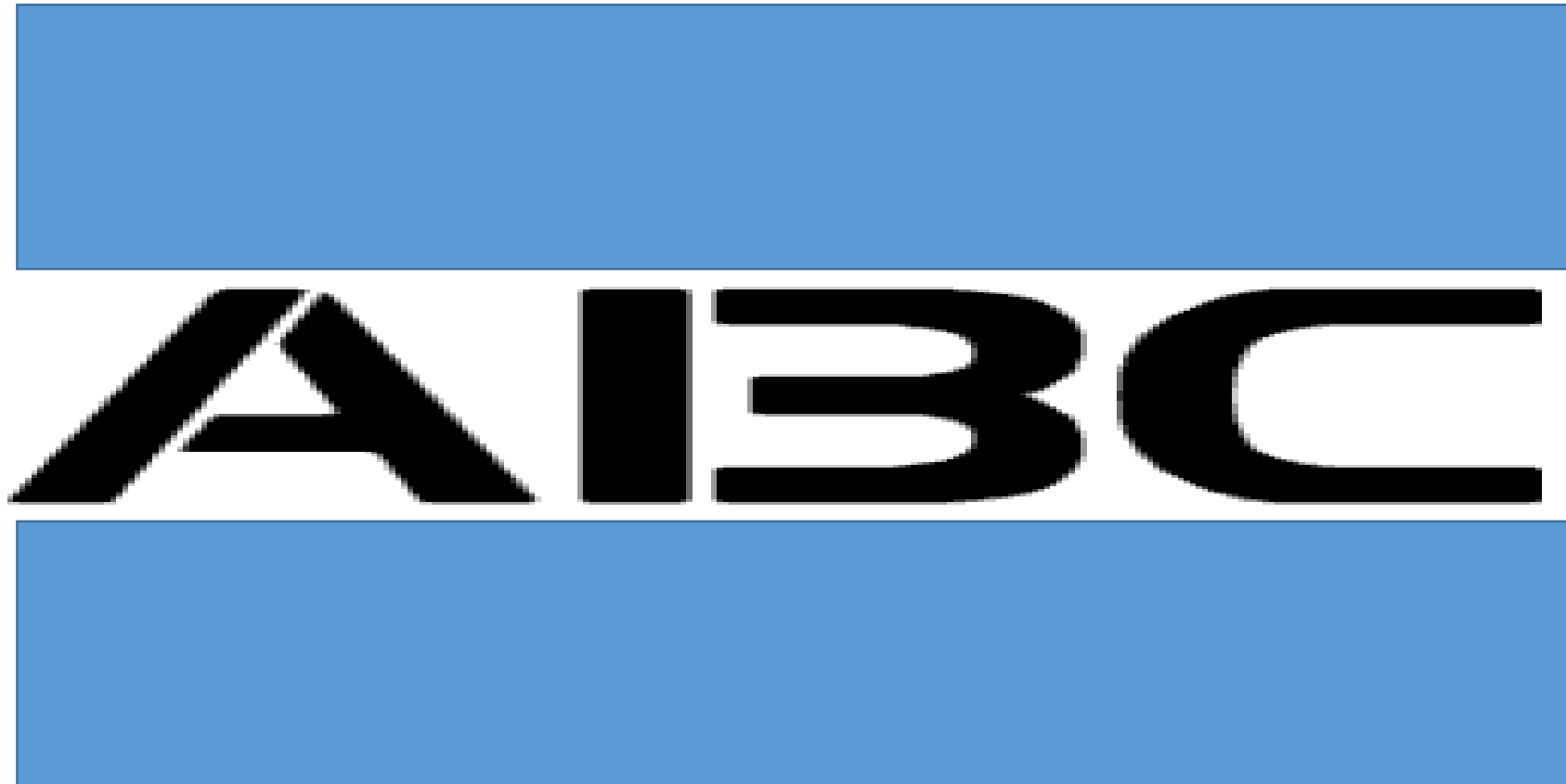
**Saw it with my own
two eyes**

VISUAL CUES









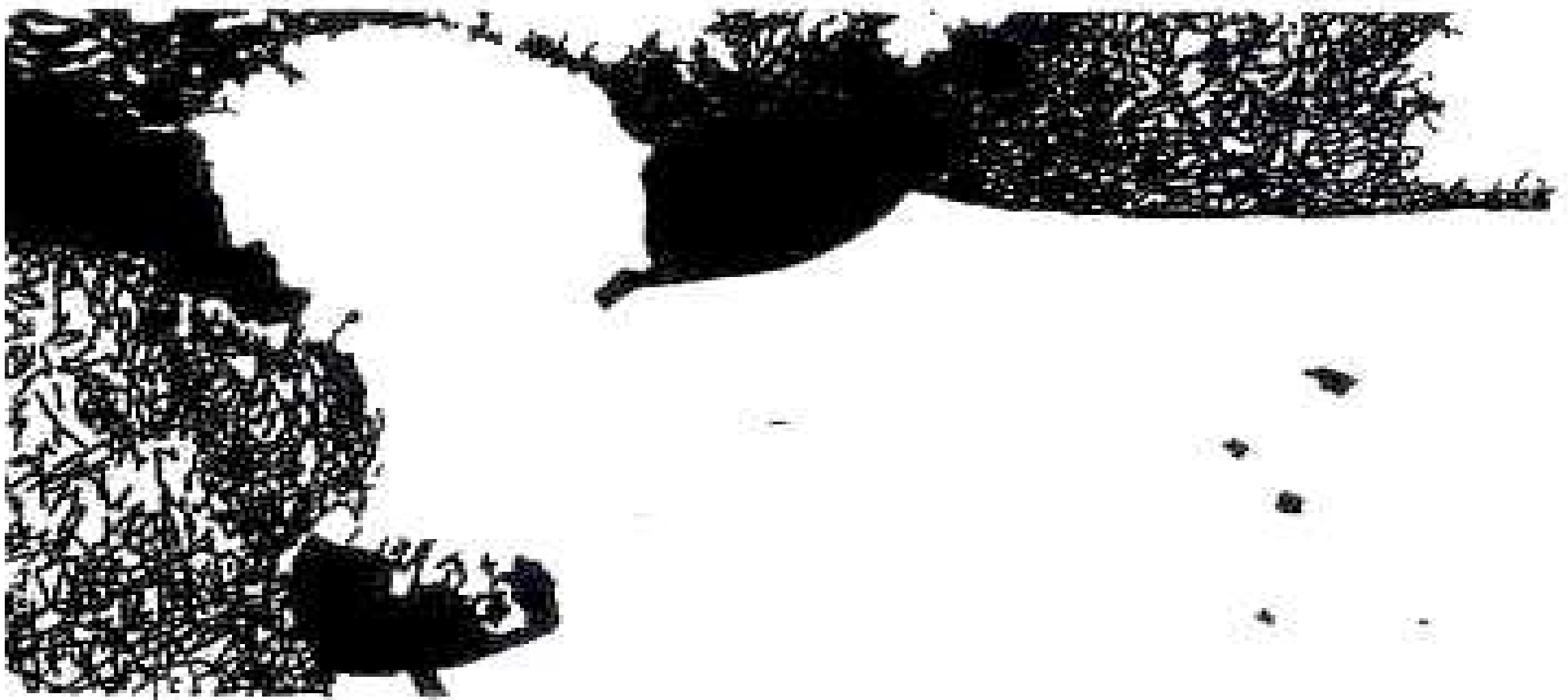
234

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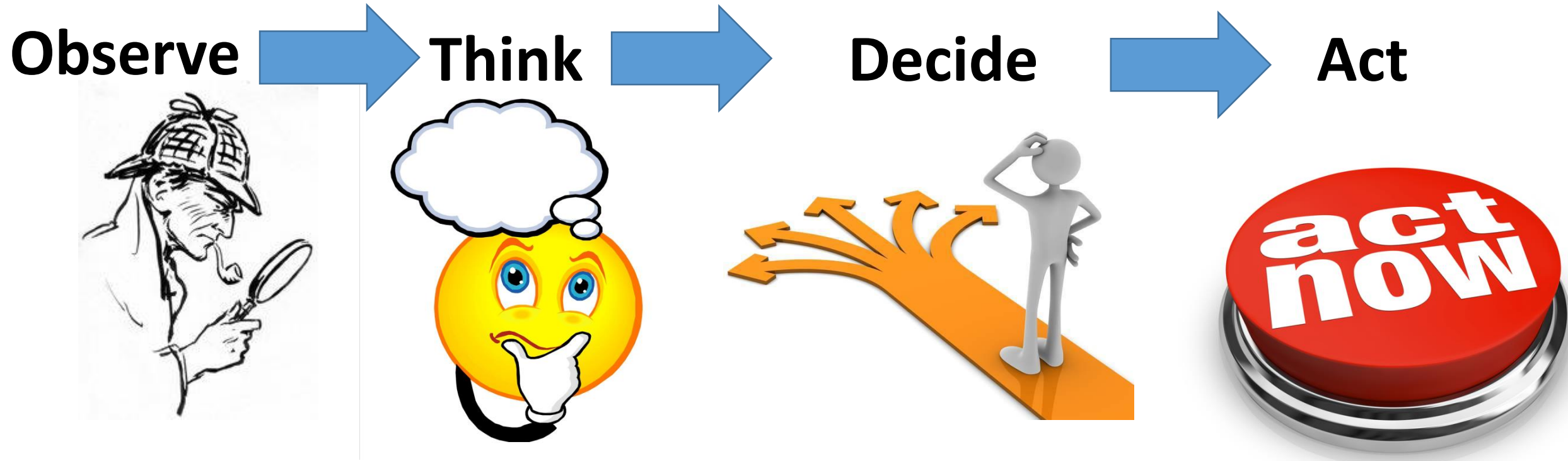
CAN YOU BELIEVE WHAT YOU 'SEE'?



**WE DON'T
SEE THINGS
AS THEY ARE,
WE SEE THEM
AS WE ARE.**

Anal's NIn
www.quote-coyote.com

THE RATIONAL MODEL



What about the ‘thinking ‘ part

- We are subject to very many biases:
 - Familiarity bias
 - Self serving bias
 - Availability bias
 - Groupthink
 - Confirmation bias

CONFIRMATION BIAS

- We tend to reinterpret new information to fit in with our existing theories

“What the human being is best at doing is interpreting all new information so that their prior conclusions remain intact” – Warren Buffett



....SO WHAT.....

Our belief in the accuracy / objectivity of the inputs to and functioning of our 'rational' model is quite misplaced

THE RATIONAL MODEL – REVISED

Feel



Observe → **Think** → **Decide** → **Act**



The 'Golden Circle' of Cortex, limbic system and brain stem

Neocortex

The part of the brain most recent in evolution is associated with complex thought.

Prefrontal Lobes

The brain's executive center: integrates information from all parts of the brain and makes decisions to act.

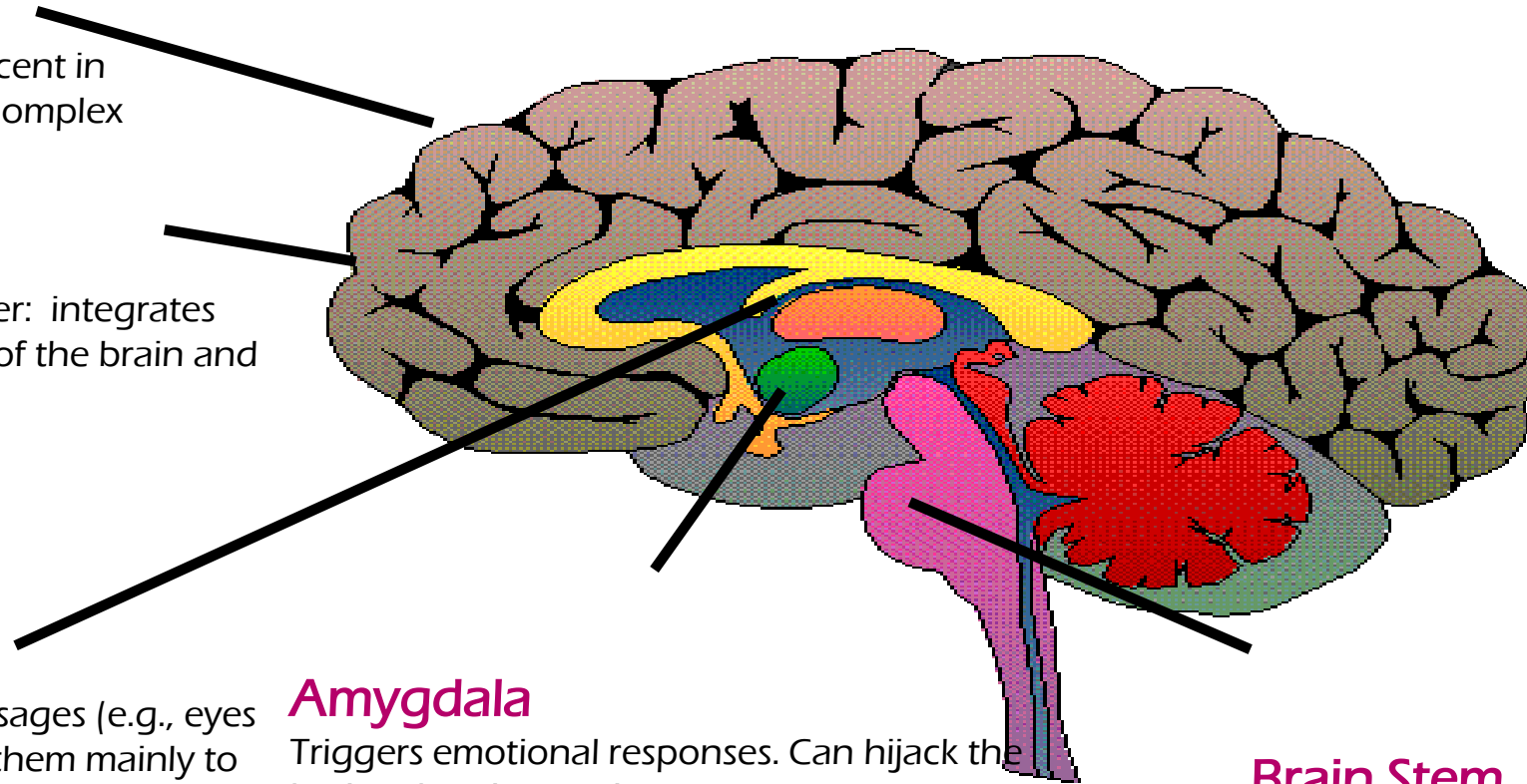
Thalamus

Processes sensory messages (e.g., eyes and ears) then routes them mainly to the neocortex.

Amygdala

Triggers emotional responses. Can hijack the brain when it perceives an emergency.

Brain Stem



....IN OTHER WORDS.....

You are an emotional being capable
of thought



.....Not

A rational being besieged by
emotions



SO WHAT.....

A. Ethical dilemmas are less emotionally charged than other business decisions

B. Ethical dilemmas are about as emotionally charged as other business decisions

C. Ethical dilemmas are more emotionally charged than other business decisions



To make ethical decisions, we must be very concerned with the intelligent use of our emotions

Ethical leadership and Narcissism.....



- High but fragile self esteem
- Sense of entitlement
- Need for constant and on-going external validation



Executives seem to display more narcissism that the general population.

Two theories:

1. It takes a bit of narcissism to get to the top
2. Executive narcissism is structurally induced



NARCISSISTIC CEOS – DOES YOUR COMPANY HAVE ONE ?

- Prominence of CEO photograph in annual report
- Prominence of CEO in press releases
- CEO use of 'I' in interviews
- CEO compensation compared to next highest paid person

CONSEQUENCES OF NARCISSISM

Can succumb to temptation of unethical action in the pursuit of grandiose strategies that put them in the spotlight

(e.g. significantly more likely to engage in M&A activity)

Almost certainly won't leave a viable succession plan in place

Chatterjee & Hambrick. Its all about me. Narcissistic chief executive officers and their effects on company strategy and performance. Administrative Science Quarterly, 52 (2007) 351-386

CONSEQUENCES OF NARCISSISM

- Can become disassociated from the realities of life in the trenches



Tony Hayward CEO of BP

MSV Skandi Neptune

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D: 4757.8 Alt: 4.7

Here 14: Plume Monitoring

THINK
PROGRESS

04:30:51

hdg: 97.51

OIL SPILL DISASTER

BP TO TRY NEW CONTAINMENT PLAN

 TODAY

TODAYSHOW.COM

Summary: Causes of Ethical Failure

Abuse of
Power

Bias

Narcissism

Group-Think

Ill-Conceived
Goals

Willful
Neglect



An Ethical
Organisation



Governed
Ethically



The Ethical Organisation



Compliance
and Ethics *Hotline*



*Which large multi-national company
had an award-winning 64 page
Code of Business Conduct?*



ETHICAL GOVERNANCE



Embed Governance Safeguards

Abuse of Power:
Good Chair; strong board

Bias:
Employ “6 Hats” thinking

Narcissism:
Appoint the right CEO!

Group-Think:
Ensure a diverse and independent board

Ill-Conceived Goals:
Reward good processes, not just outcomes

Willful Neglect:
Ask the tough questions

Acting Ethically

If this was a private company and I was leaving it to my grandchildren, would I make this decision?

Andrew Fastow, Ex-CFO Enron

*Would I be happy to be held accountable for it?
(Irish Times headlines)*

THE ETHIC FRAMEWORK



SHADES OF GREY: JUST GOOD FRIENDS?

You are Sales Director for Ireland & UK for a wholesale furniture business. Markets have been tough lately and you are under pressure to win some high-margin business to help get things back on track.

You fly to London late one Thursday evening for a business meeting with a major customer the next morning to negotiate a contract for the second phase of a substantial hotel refurbishment project - exactly what the business needs. You are accompanied by your colleague Tom, whom you know well, as Tom's wife has been a good friend of yours since your college days. Tom also reports to you, which can be a little awkward, especially around review time. After you have both checked in at the hotel, you suggest meeting up for a bite to eat in an hour or so but Tom makes excuses and seems a little evasive.

Later that evening as you walk through Covent Garden you see Tom at a table in a restaurant with Marianne Fields, the key customer contact you are due to meet the next day, and from the way they are holding hands it is clear this is not just a business relationship.

LEADING WITH INTEGRITY



What drives me?

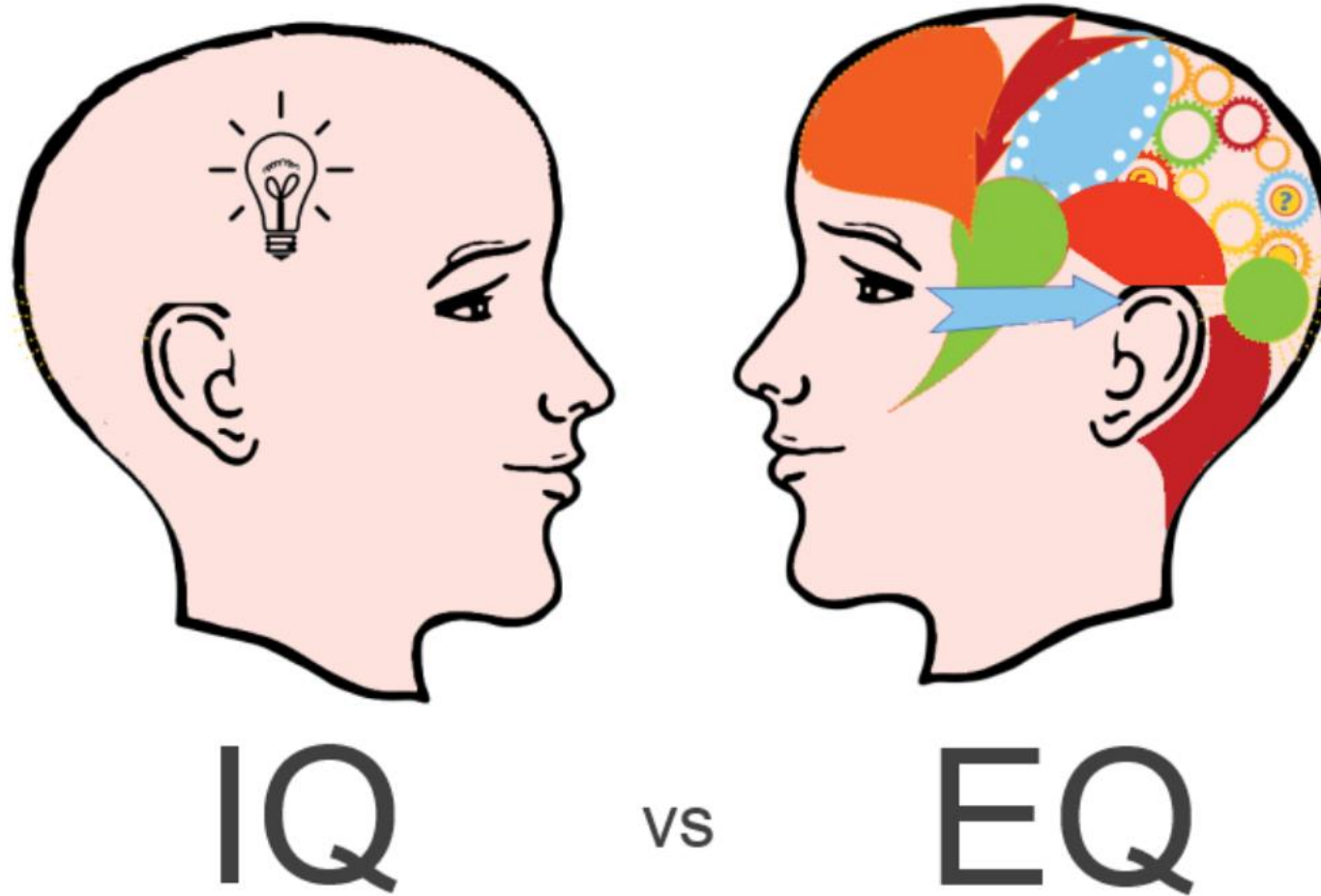
How do I relate to others?

What makes me unique?

Your Core Values?



Emotional Intelligence

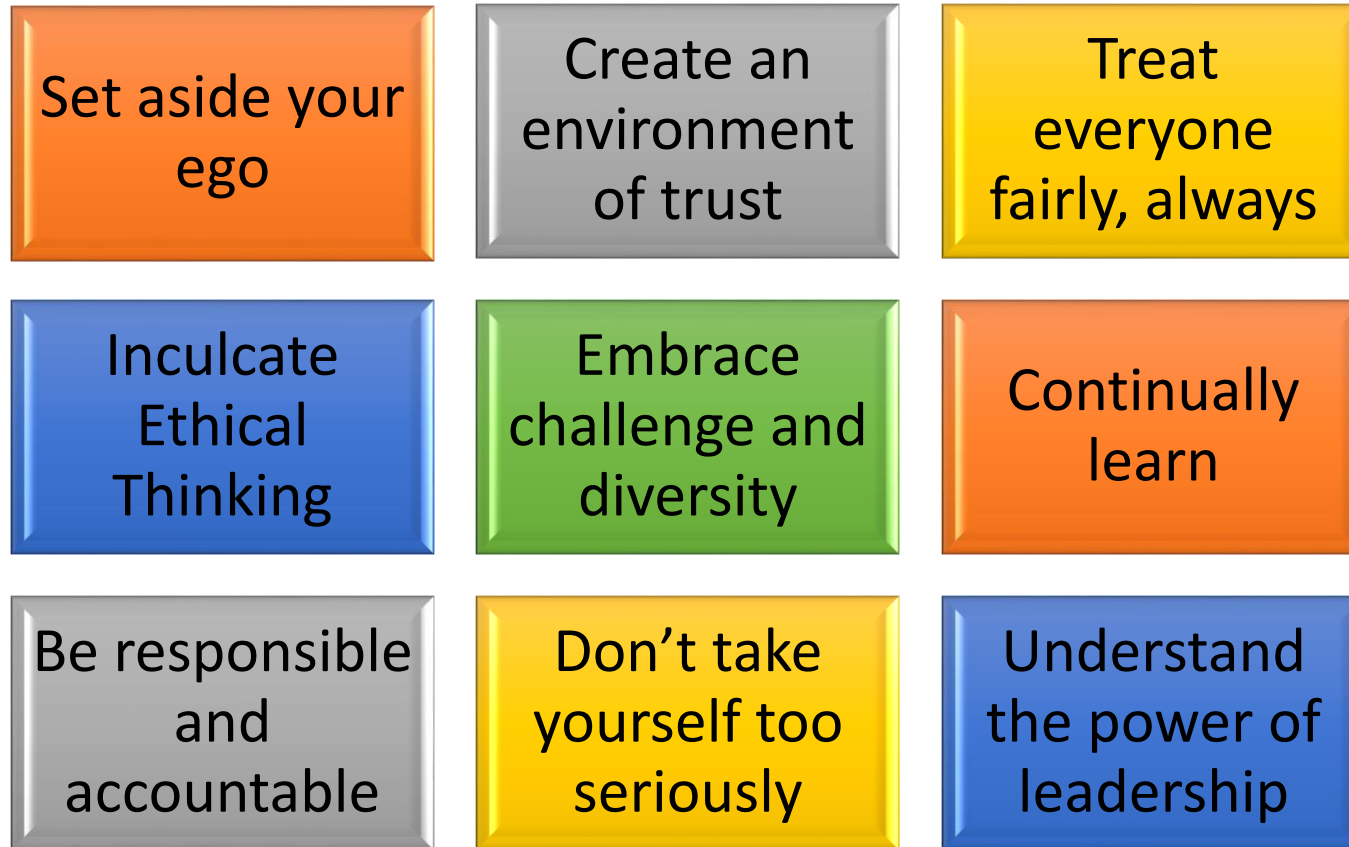


Authenticity



adapted from Goffee & Jones "Why Would Anyone be Led by YOU?"

LEADING WITH INTEGRITY IN PRACTICE



(Keltner. Managing yourself. Don't let power corrupt you, HBR, October 2016)

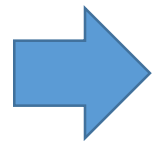
.....AND FINALLY.....

You can't build a reputation on what
you are going to do

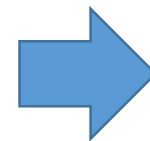
Henry Ford

In leadership it is your
actions, not your
intentions which matter

The one thing I am
going to do
differently is.....



The next
opportunity I will
have to do this will
be.....



I will hold myself
accountable for
actually doing this
by.....



Thank you