



Building and nurturing a High Performance – High Integrity corporate culture

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Why High Performance, High Integrity?

- High performance part is obvious...
- High Integrity part increasingly obvious
 - Regulations and fines

Some recent fines

- 2007
 - BMS \$ 515 million
- 2008
 - Cephalon \$ 425 million
- 2009
 - Pfizer \$ 2.3 billion
 - Eli Lilly \$ 1.4 billion
- 2010
 - Allergan \$ 600 million
 - Astra Zeneca \$ 520 million
 - Novartis \$ 422.5 million
 - Forest \$ 313 million
 - J&J \$ 81 million

Siemens

2007: € 398 Million

2008: \$ 1.3 Billion

+ \$ 250M for gender discrimination lawsuit

For ten years one of the Top 100 Best Companies by *Working Mother* magazine...

Why High Performance, High Integrity?

- High performance part is obvious...
- High Integrity part increasingly obvious
 - Regulations and fines
 - Society's (& customers') expectations have increased
 - The world is an increasingly transparent place
 - For our employees (and our Employer Value Proposition)...

Leaders and Culture

“The only thing of real importance that leaders do is to create and manage **culture**”

“The unique talent of leaders is their ability to understand and work with **culture**”

Edgar H. Schein,
Organizational culture and leadership (2nd edition)

HPOs actively “manage” their culture

At GE, we consider our **culture** to be among our innovations.

Over decades our leaders have built GE’s **culture** into what it is today — a place for creating and bringing big ideas to life.

Today, that **culture** is the unifying force for our many business units around the world.

Source: GE Annual report, 2008

Cisco culture



Our Values

You are here: >>enron.com >>Investors >>Annual Report 2000 >>Our Values

Communication

We have an obligation to communicate. Here, we take the time to talk with one another... and to listen. We believe that information is meant to move and that information moves people.

Respect

We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment.

Integrity

We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

Excellence

We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

[more](#)

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Culture ...

When a pattern of behaviour is reasonably pervasive throughout the organisation...

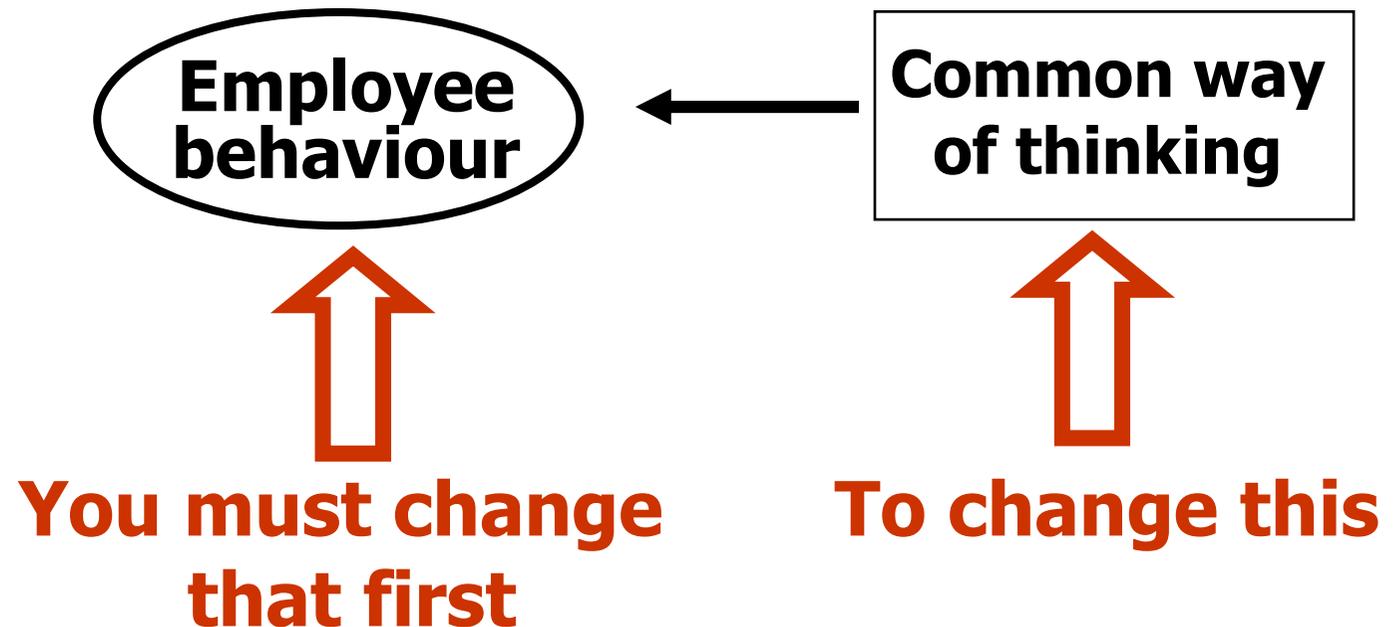
Across countries, functions, departments, hierarchical levels, and across time...

“Culture comes down to a common way of thinking, which drives a common way of acting”

Goffee and Jones, *The Character of a Corporation*, 1998

Re-shaping an organisation's culture (1)

That's because
human beings tend to *act their way* into new attitudes



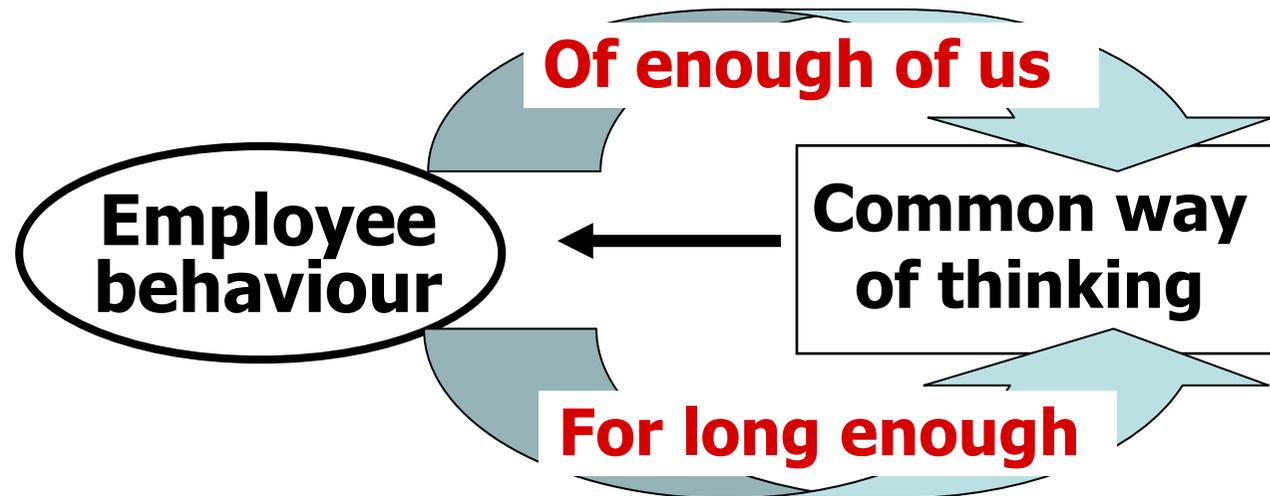
Attitude vs. behaviour... which comes first?

- **We do not act rightly because we have virtue or excellence, but**
- **we rather have those because we have acted rightly.**
- Men (and women) **acquire a particular quality by consistently acting in a particular way**
- We are what we repeatedly do

Aristotle (i.e., not exactly new...)

Re-shaping an organisation's culture (2)

You must reshape the behaviour of *enough* people, for long enough



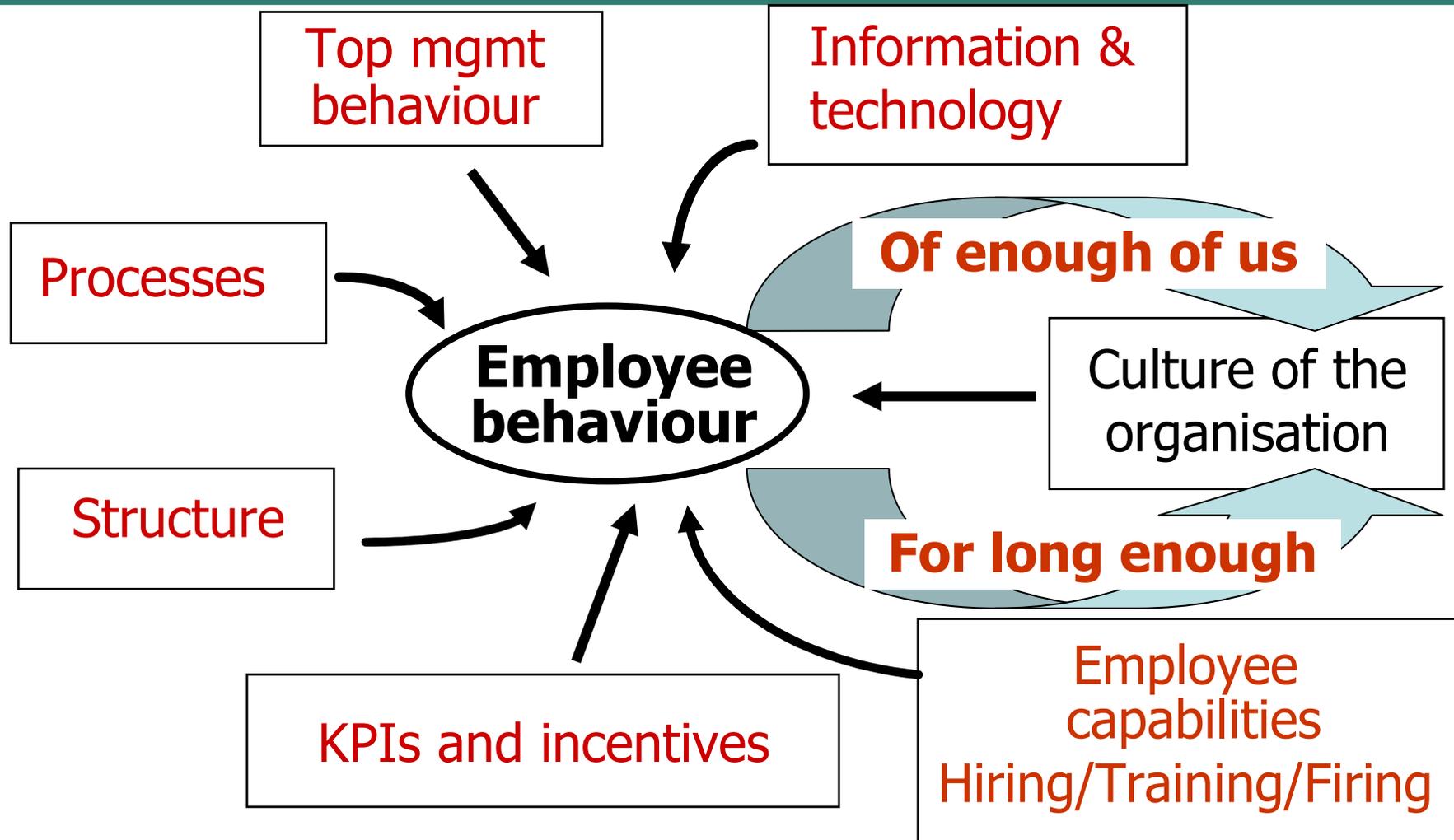
Long enough

to *internalise the new behaviour*

Long enough

for the new behaviour to become a new habit

Re-shaping an organisation's culture (3)



Which requires the aligned and persistent activation of all managerial levers

Tesco's long-term strategy

- To be a successful international retailer
- To grow the core UK business
- To be as strong in non-food as in food
- To develop retailing services
- To put community at the heart of what we do

Our long-term strategy

International

Tesco is an international retailer and wherever we operate we focus on giving local customers what they want. Page 8

Core UK

The UK is our biggest market and the core of our business. We aim to provide all our customers with excellent value and choice. Page 12

Non-food

Our aim is to be as strong in non-food as in food. This means offering the same great quality, range, price and service for our customers as we do in our food business. Page 16

Retailing Services

Tesco has followed its customers into the growing world of retailing services, aiming to bring simplicity and value to sometimes complex markets. Page 20

Community

Tesco is a responsible business. We aim to take a leadership role in tackling climate change and believe in playing a positive role in all the communities we serve. Page 24

Source: Tesco Annual report, 2009

Our *Every Little Helps* strategy

Every little helps
A great place to work

- To be treated with respect ✓
- A manager who helps me ✓
- An interesting job ✓
- An opportunity to get on ✓

Treat people how we like to be treated

Every little helps
Shopping List

- The aisles are clear ✓
- I can get what I want ✓
- The prices are good ✓
- I don't queue ✓
- The staff are great ✓

None tries harder for customers

Source: Tesco Annual report, 2009

Every little helps
The way we work

- We deliver consistently every day ✓
- We try to get it right first time ✓
- We make jobs easy to do ✓
- We know how vital our jobs are ✓
- We always save time and money ✓

Better for customers, simpler for staff and cheaper for Tesco

U11

Our Community

- Actively supporting local communities ✓
- Buying and selling our products responsibly ✓
- Caring for the environment ✓
- Giving customers healthy choices ✓
- Good jobs for local people ✓

Together we can make a difference

EIASM Worksho

The Tesco Steering Wheel (2009)



Source:
Tesco
Annual
Report
2009

Tesco works because...

- It deploys a series of organisational practices and mechanisms that are **individually smart**
- But taken individually, **few of the practices are earth-shattering.**
- **Collectively**, they are incredibly powerful!

The practices are...

- **Incredibly *aligned***
- **Applied with *great intensity***
- ***Consistent over time***, driven by a mgmt team that has been together for over a decade

Meaning of High Performance, High Integrity

- High **Performance**

- Designs/make/source/sell valued products and services
- Organisation is effective and efficient enough to capture enough of that value
- Strives for and achieves high performance levels

Meaning of High Performance, High Integrity

- High **Integrity**

- Basic **compliance** – respect the law...

- **Ethics** beyond the letter of the law...

- Doing “The right thing” for our various constituencies

- where right thing \Leftrightarrow our **brand proposition** / the **reputation** we want to have

- 
- Customers
 - Employees
 - Suppliers
 - Environment/ sustainability...

-
- HP and HI congruent LT, often divergent ST
 - But isn't management about making trade offs?
 - In terms of attention
 - Left or right
 - Urgent vs important
 - In terms of investment
 - Left or right
 - Short term or long term

-
- The divergence is
 - allowed by the imperfection of metrics
 - encouraged by Incentives tied to these incomplete measures
 - Ideas
 - Multiple indicators / BSC
 - Long term performance measurement and incentives

Creating a HP, HI culture

- Mgmt accounting scholars provide numbers
 - to help managers understand the trade offs they are facing and make the best ones
 - to help align incentives to a more complete picture of performance

Creating a HP, HI culture

- We'll then design a "control system" that will ensure there is no disconnect
 - Boundary controls
 - Lots and lots of regulations and policies, which people must certify they've been trained in
 - A separate group to inspect/audit what managers are doing...
 - Belief system

To reach a distant workforce

By David Gelles, August 24, 2011



- How can large, international groups ensure that all of their operations share enough of a common framework?
- particularly when cultural, commercial and social norms are not the same as at home
- ...In principle, we advise companies to distinguish
 - Principles and Practices / Religion and Rituals
- What are the Principles – the non-negotiable parts?
- In the case of Ethics, how does one go about that process?

In summary, top management must strive to create a **common way of thinking which drives a common way of acting...**

- Where (tens of) thousands of people
 - With different **personal** norms
 - With different **cultural** norms
- Will be **willing** and **able** to
 - Respect the law
 - “Do the right thing”

We know that in a number of cases people will **fail to take the right action** because

- They gave in to
 - Fear
 - Self-imposed fear of losing relationship(s), money or promotion, reputation (internal and external)
 - Stimulated by pressure and intimidation
 - Milgram's experiments
 - Greed

We know that in a number of cases people will **fail to take the right action** because

- They then actively **rationalised** these actions, by
 - Minimising the magnitude of the breach
 - Comparing to other offenders
 - Attributing the breach to an unavoidable/external cause
 - Attributing the breach to a higher purpose

The human tendency to rationalise is considerable...

- It is based on the human need to reduce **cognitive dissonance**
- CD is a state of tension occurring whenever **a person holds two cognitions that are psychologically inconsistent**
- CD can be remarkably resistant to the existence of accurate and relevant disconfirming data!
 - MRIs of the brain show that
 - dissonant information ⇒ reasoning areas of the brain shut down
 - consonant information ⇒ emotion circuits of the brain lit up!

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- We also know that this process often occurs over time in an incremental way... it's a slippery slope
 - "People don't wake up one day and say, "I think I'll become a criminal today." Instead, it's often a slippery slope and we lose our footing one step at a time." CC, p.1

Cynthia Cooper, whistleblower at WorldCom

- An unexpected shortfall in the quarterly profit numbers
- Pressure from an impressive and respected boss to “make the problem go away”...
- Rationalisation: It’s just short bridge loan....
- The three accountants **know that they are being asked to do something that is “wrong”**
- Time passes...

Cynthia Cooper, whistleblower at WorldCom

- Next quarter they are asked again to “help”... They do so, and again, and again...
- As the magnitude and severity of the cheating increases they grow increasingly uncomfortable, but
- Past decisions – now incriminating them – also start to weigh in...

Some good quotes on the notion of slippery slope

- “Sow a thought, reap an action; sow an action, reap a habit; sow a habit, reap a character; sow a character, reap a destiny”
Scottish author Samuel Smiles
- “The foundation of our character is laid brick by brick, decision by decision, in how we choose to live our lives”
CC, 364
- “Every time you make a choice, you are turning the central part of you, the part that chooses, into something a little different than it was before.” C.S. Lewis, p. 364
- “Good and evil both increase at compound interest. That is why the little decisions you and I make every day are of such importance” (C.S. Lewis, 365-366)

And of course, people didn't speak up

Why not speak up?

- I don't care – I'm disconnected
- Speaking up will not help – “they will not listen”
- Speaking up may be costly for me

Cynthia Cooper, whistleblower at WorldCom

- They were basically “good people who made bad decisions” (and took bad actions)
- “Each of us is capable of making bad decisions” p. 363
 - *Good analogy*: Swimmer in a swimming pool have lines on both sides. Tri-athletes swim in open water and have no such lines. They must hence maintain their direction by picking a landmark and regularly checking they’re still on course
 - ** Especially when many swimmers around them start swimming in another direction!!

Courage (or lack thereof) at WorldCom...

- "I'm sorry for the hurt that has been caused by my cowardly behavior"
-- *Scott Sullivan, CFO*
- "At the time I consider the single most critical character defining moment of my life, I failed. It's something I'll take with me the rest of my life."
-- *David Myers, controller*
- "Faced with a decision that required strong moral courage, I took the easy way out... There are no words to describe my shame."
-- *Buford Yates, director of general accounting*

Source: "Creating an ethical culture", by David Gebler,
Management Accounting (May 2006), p. 30

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- So let's hire "ethical people"!!
 - Great companies do tend to invest more time, effort and energy in selecting the "right people for them"
 - But the WorldCom story shows how easy it is for "ordinary, middle-class Americans" (reasonable, reasonably honest, god fearing family men and women) to
 - Take actions that breach their own principles
 - Rationalise these actions
 - In addition, research shows that the circumstances under which people operate have significant impact on their ethical behaviour

e.g., Lack of sleep leads to...

- More mistakes
- Less innovative thinking, poorer risk analysis and strategic planning
- Increased deviant and unethical behaviour
 - Rudeness
 - Inappropriate responses
 - Cheating on reporting
- Significantly higher (60% more) activity in the amygdala
- Poorer connection with the prefrontal cortex (“policeman of the brain”)
- Connection with another part of the brain associated with the production of adrenaline

References on impact of lack of sleep

- “The human emotional brain without sleep: a prefrontal amygdala disconnect”, by Seung-Schik Yoo¹, Ninad Gujar², Peter Hu², Ferenc A. Jolesz¹ and Matthew P. Walker², *Current Biology*, [Volume 17, Issue 20](#), (23 October 2007)
 - 1 Department of Radiology, Brigham and Women's Hospital, Harvard Medical School, Boston, Massachusetts 02115, USA
 - 2 Sleep and Neuroimaging Laboratory Department of Psychology and Helen Wills Neuroscience Institute, University of California, Berkeley, California 94720 1650, USA
 - Discussed in *Scientific American*
<http://www.scientificamerican.com/article.cfm?id=can-a-lack-of-sleep-cause>
- “Examining the Effects of Sleep Deprivation on Workplace Deviance: A Self-Regulatory Perspective”, by Michael S. Christian and Aleksander P.J. Ellis, *The Academy of Management Journal*, Volume 54, Number 5 (October 2011)
 - Discussed in the *Washington Post*
http://www.washingtonpost.com/blogs/post-leadership/post/why-sleep-deprivation-can-makeyou-unethical/2011/04/01/AFIIXT2G_blog.html
 - And in the *Financial Times*
<http://www.ft.com/intl/cms/s/2/a77b9914-77cb-11e0-ab46-00144feabdc0.html#axzz1X9NpzBIH>

e.g., Priming

- Very small unconscious signals from one's environment lead to very different behaviour...
- ⇒ The conditions under which people operate (and which are partly shaped by the organisation and its top management) hence play a major role

But the problem is in fact even more difficult to solve (than “making people willing to do the right thing”)

- For people to have the courage to do the right thing, they first need to **identify** what’s “the right thing to do”
- We tend to think that between their “moral education” and the training we give them, people will be **able to**
 1. identify “ethical dilemmas”
 2. know the right course of action

But the problem is in fact even more difficult to solve (than “making people willing to do the right thing”)

- But research shows that human beings often do *not* recognise that they (&/or others) are behaving unethically
- As a result, our confidence in our own integrity is frequently overrated

One can distinguish four major causes for this “blindness”

- 1. “Ethical fading”** : Ethical aspects/implications of the decision fade away from our mind... we fail to notice them.

More likely to happen when...

- “Business” implications are heavily emphasised
- Language euphemisms are used
- Potential victims are numerous and anonymous

One can distinguish four major causes for this “blindness”

Counter-intuitively, Ethical Fading can also increase with

- Small financial penalties associated with transgression
- The existence of a large number of rules and regulations
- Disclosure of the “conflict of interest”

One can distinguish four major causes for this “blindness”

2. Motivational blindness: Tendency to

- overlook information that works against one’s best interests, &/or
- interpret available information in favor of one’s best interests

This process can be totally unconscious.

e.g., auditors

One can distinguish four major causes for this “blindness”

3. Confirmatory biases (related to dissonance reduction)

- E.G., Warren Buffett and David Sokol
- What we see, the way we interpret - and even the way we memorise - events is influenced by our beliefs

One can distinguish four major causes for this “blindness”

4. Self-serving bias

- “I’m a good person. If I do this, it must be OK”
- “My friends/mates are OK too”
- Note: This rationalisation consumes energy.
- This effect can be reinforced by telling individuals they are part of a particularly morally-upstanding group

Suggestions and questions

Be careful with intuitive responses

- Large number of rules and regulations
- Requirement to acknowledge issues/potential problems
- Small financial penalties associated with transgression

Suggestions and questions

- Train judgment!
 - It takes a while to override
 - Individual norms
 - National cultures
 - How do we find the “minimum number of rules”?

Suggestions and questions

- Combat ethical fading
 - Spend much time on the other perspectives (social, environmental, ethical reviews)
- Create a climate where people can speak up
 - Give mgmt feedback on how much they do so today
 - Train managers... much better than today!

Suggestions and questions

- Do we highlight strongly enough for our students
 - The slippery slope
 - The cost of transgression
- Do we remind managers often enough of these?
- Does our teaching sufficiently help increase managers' and auditors' awareness
 - Ethical fading
 - Motivational blindness and confirmation biases
 - Self-serving bias
 - Dangers of intuitive responses

Some good references

- Extraordinary Circumstances: The journey of a corporate whistleblower, by Cynthia Cooper (Wiley, 2008)
- Mistakes were made (but not by me), by Carol Tavris and Elliott Aronson (Harcourt, 2007)
- Blind Spots: Why we fail to do what's right, and what to do about it, by Max Bazerman and Ann Tenbrunsel (Princeton University Press, 2011)
- Out of Character: Surprising truths about the Liar, Cheat, Sinner (and Saint) Lurking in All of Us, by David DeSteno and Piercarlo Valdesolo (Crown Publishing, 2011)
- Managing the Unexpected: Resilient performance in an age of uncertainty (2nd edition), by Karl Weick and Kathleen Sutcliffe (Jossey-Bass, 2007)
- Unpopular Culture: The ritual of complaint in a British bank, by John Weeks (University of Chicago Press, 2004)