



Managing the New Transparency: ■ Cultural and Organizational Considerations



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Transparency?

- Old definition: anti-corruption, bribery
- New definitions
 1. Disclosure of financial information
 - Social
 - Environmental
 2. Accountability, integrity, and responsibility
 - Proposed 10th principle of UN Global Compact
 - “beyond anti-corruption”
- Why now?
 - Scandals, new laws, crises of confidence, desire to rebuild trust

■ Issues for Energy Firms

- Economic uncertainties
- Increased NGO power
 - Human rights
 - Environment
- Scrutiny of accounting practices
- Criticism of community activities
- History: bad boy reputation
 - Yet firms survive, and even thrive
- History: established HSE practices

Global context:

Four trends influencing transparency

1. Governance
2. Global Codes
3. Social Reporting
4. Citizenship & social responsibility

Back to new transparency:

“...accountability, integrity, and responsibility...”

What does this mean?

- Companies are scrambling, moving in various directions
- NGOs & governments suggesting different definitions, reporting standards, and aspirational criteria
- Economic convergence
- Sarbanes–Oxley still being interpreted
- Lots of uncertainty *and* pressure to act

■ My goals:

1. Tame some of the uncertainty
2. Offer guidance on actions
 - Organizational issues
 - Cultural concerns

With regard to the uncertainty, research shows...

- Ideas act somewhat like industries: scrambling, whether defensive or offensive, will not continue
 - Fragmentation untenable in the long term
 - Complete convergence unlikely
 - Timeframe uncertain
- Several models (for social reporting, board configuration, etc.) will emerge, somewhat in tension but largely in agreement
- Firms will emulate each other, and will copy leaders in other industries
 - Laws matter
 - Culture will influence implementation

Emulate what?

- Important to make explicit what is meant by transparency, by “accountability, integrity, and responsibility”
- My emphasis on employees
 - Why? Accountability, integrity, and responsibility rest in employee behavior
 - As opposed to social reporting, governance, and global codes that are leadership issues

■ Questions to be addressed:

- What organizational structures create and encourage accountability, integrity, and responsibility?
- How do different national cultural characteristics affect these efforts?

Structures for Transparency

1. Values Statement
2. Code of Conduct
3. Ethics Program
4. Whistle blowing procedures

→ All brought about by communication
and training

■ Values Statement

Gives clear *direction* on how employees are expected to behave.

Should help people make decisions.

e.g. “Safety first” “Quality is job one”

Code of Conduct

Offers explicit *guidelines* on situations contrary to the company's values, i.e., bribery, patronage

Sarbanes–Oxley requires a code of ethics for senior financial officers

- must be disclosed
- some companies create a separate code

NYSE requires for all listed companies...

Ethics Programs

■ What Works...

- Consistency between policies and actions
- Ethical culture
 - Leadership
 - Fair treatment of employees
 - Open discussion of ethics

■ Rules/compliance-based

- Prevention
- Detection
- Punishment based on laws

■ Values/integrity-based

- Organizational values
- Employee commitment to ethics
- Preferred by US employees

Whistle blowing

Goal: make the organization safe for truth telling and whistle blowing

- Internal mechanisms
- External mechanisms
- Rewards/punishment
- Translation difficult – literally and figuratively
- Sarbanes–Oxley requires
 - anonymous whistle blowing mechanisms
 - protections against retaliation

Communication and training

- Over-communicate
- Use multi-modalities
- Encourage discussion of issues related to transparency, ethics
- Expect resistance
- Allow adequate time
- Address all levels
- Take into account language and culture
- More....

Unique concerns for global firms

- Values are not the same everywhere
- Absolutism versus relativism
- Who decides? Home versus host

Research on culture

- Exploding
- Controversial
- Topics of interest:
 1. Communication
 2. Knowledge transfer
 - Important for integrity and codes of conduct
 3. Empowerment
 - Important for accountability & whistle blowing
 4. Trust
 - Crucial for all stakeholders

■ Hofstede:

Nationality

constrains

nationality

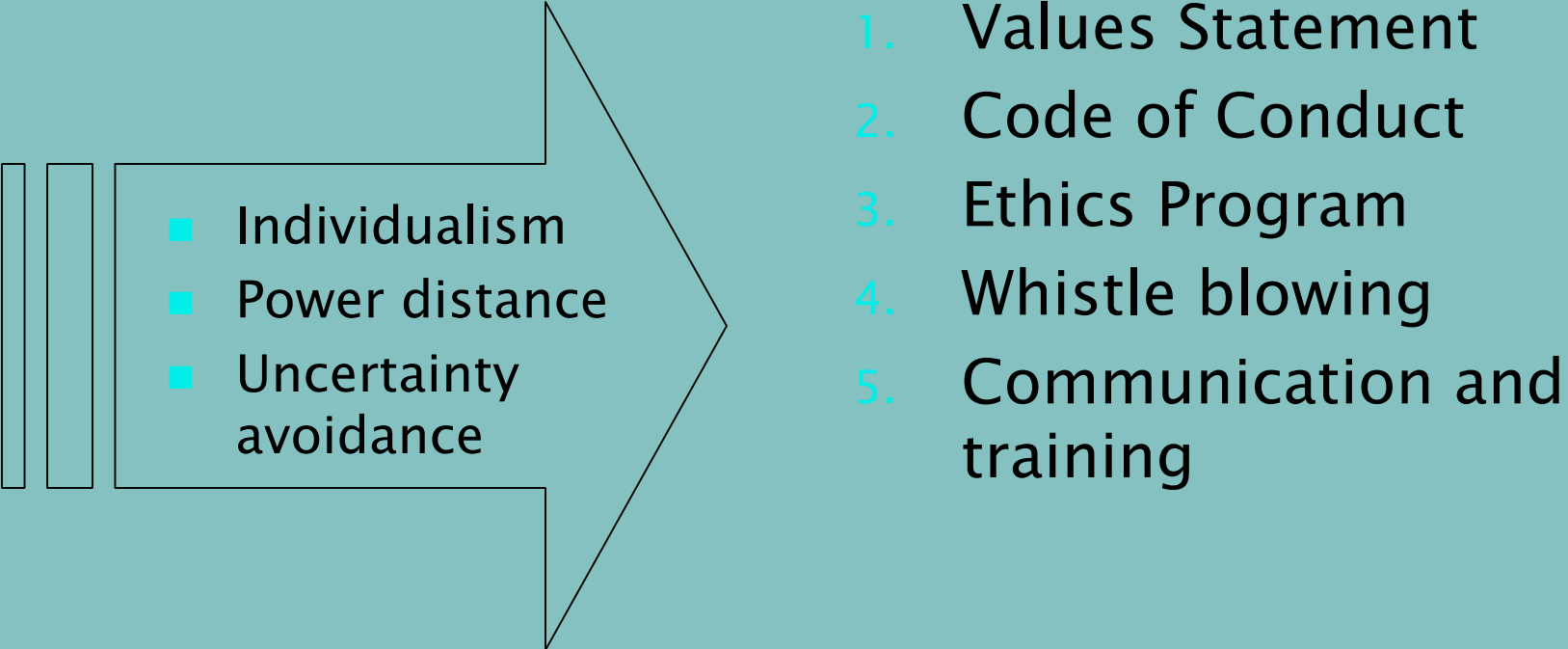
In what ways do national cultures differ?

- Mental models
 - Analyze social behavior
 - Process information
- Communication styles
 - Vertical/horizontal
 - Direct/indirect
- Values
- Time orientation
 - Etc.
- Beware overgeneralization, impact of personality (cognitive styles)

Cultural Characteristics That Influence Transparency Efforts

- Individualism–collectivism (deep structure)
 - Horizontal or vertical
- Power distance
 - Comfort in interacting across hierarchical levels
 - Beliefs about involvement in decisions
- Uncertainty avoidance
 - Tolerance for ambiguity vs. clear goals and guidelines

How do cultural characteristics influence structures?

- 
- Individualism
 - Power distance
 - Uncertainty avoidance

1. Values Statement
2. Code of Conduct
3. Ethics Program
4. Whistle blowing
5. Communication and training

Individualistic Cultures

Research Findings

- Communication is linear, uses “I” not we.
- Relationship of individual and organization is calculative
- Written and codified information is highly valued
 - Preference for formal agreements and licensing
 - Explicit, logical, abstract knowledge transfers best
 - Knowledge can be independent (not contextual)
- Personal goals matter
 - Do not want to be accountable for results that depend on work of others
- Lack of information given as key reason individuals resist acting responsibly
- Groups will look for a scapegoat

Individualistic Cultures

Countries Consequences

- | | | |
|---------------|----|--|
| US | 1. | Values Statement should stress individual responsibility. |
| Australia | | |
| Great Britain | 2. | Codes of Conduct should be explicit and precise. |
| Denmark | | |
| Sweden | 3. | Ethics Program can be values-based, if the values appeal to individuals and their self-interest. |
| Italy | | |
| France | | |
| Norway | 4. | Rules-based ethics programs may also be effective. |
| | 5. | Whistle blowing can be encouraged, and individuals (rather than groups) will come forward. |
| | 6. | Training should explicate benefits to individual and emphasize rationality. |

Horizontal Individualism

Country	Research Findings	Consequences
^S Denmark Australia Sweden	<ul style="list-style-type: none">■ Self is independent of ingroup but relatively equal to others■ Do not like people who stick out.■ Ignore information concerning hierarchy	<ol style="list-style-type: none">1. Values statements can appeal to social justice.2. Public whistle blowing is unlikely, so mechanisms will be needed for anonymous reporting.3. Chain of command not meaningful, so elements of ethics programs can be communicated by peers.

Vertical Individualism

Countries

France
Germany
UK
US

Research

Findings

Relatively affluent societies
Independent
Not consultative
Desirable to “stick out”
Competitive

Consequences

1. Values Statements should appeal to excellence, being the best.
2. Codes of Conduct should emphasize individual accountability and action.
3. Whistle blowing can be encouraged and expected; investigations must ascertain that reporting is not motivated by personal gain.
4. Employees will need incentives if they are to discuss ethical issues.

Collectivistic Cultures

Research findings

- “Self” functions interdependently
- Communicate primarily with ingroup members; use “we.”
- Codified information is not likely to be esteemed in and of itself
- Contextual clues important:
 - People pay more attention to knowledge that contains information about organizational history, patterns of obligations, norms or ingroups and outgroups
 - Better at absorbing knowledge that is tacit and systemic
- Collective goals take priority
- Discomfort with expectations of individual roles and responsibility; team/group roles and responsibility embraced
- Relationship of individual and organization is moral (like a family)
- Relatives preferred in hiring

Collectivistic Cultures

Countries Consequences

Israel	1.	Values Statement should emphasize the group, company, family, society.
Japan		
Brazil	2.	Codes of Conduct should include historical, contextual information. Procedures should be put in place for hiring and working with relatives.
China		
Egypt		
India	3.	Ethics programs can be values-based if the values are those of the collective. Rules can be effective if communicated by respected organizational leaders.
Nigeria		
Philippines	4.	Emphasize program's benefits/harms to the group.
Venezuela	5.	Firm should create mechanisms for team/group whistle-blowing and/or expect whistle blowing to be indirect.
Chile		
Mexico		
Singapore	6.	Training can be focused at group level
Korea	7.	Case studies can be effective training methods.

Horizontal Collectivism

Country

Israel
(kibbutz)
Japan

Research

Findings

- Self is merged with ingroup, family, community
- Relational, interdependent
- Emphasize ingroup goals, norms, relationships
- Prefer tacit systemic knowledge
- Consensual decision-making
- Equality is valued

Consequences

1. Values Statement can refer to social equality, relationships with stakeholders.
2. Code of Conduct will have authority in and of itself.
3. Ethics Programs should be values-based, providing the companies' values include family and community.
4. Whistle blowing occurs when group agrees. Cannot expect whistle blowing that will harm a group member.

Vertical Collectivism

Country	Research Findings	Consequences
China	■ Selves are different from	1. Values Statement should stress collective values, and appeal to higher authorities.
Singapore	other ingroup members	
Korea	■ Appropriate/desirable to	2. Codes of Conduct should acknowledge hierarchical relationships as well as strength of groups.
India	stick out	
Brazil	■ Sensitive to information	3. Ethics Programs should be rules based.
Egypt	from authorities; about	
Nigeria	hierarchy	4. Will blow the whistle for the benefit of the group.
Philippines	■ Knowledge transfer is difficult because	
Venezuela		

High Power Distance

Country	Research Findings	Consequences
Malaysia Guatemala Panama Phillipines Mexico Venezuela Indonesia Arab countries West Africa	<ul style="list-style-type: none"> ■ Information sharing is inhibited, requires time and energy ■ Decisions are centralized ■ Managers rely on rules ■ Managers doubt employees have useful information ■ Collaboration difficult ■ Responsibility resisted by those low in the hierarchy ■ Powerful leaders needed to implement changes ■ Grievance channels difficult to establish 	<ol style="list-style-type: none"> 1. Employees will not expect input into Values Statement or Code 2. Ethics Programs should be rule-based; include mechanisms for centralized decisions. 3. Whistle blowing difficult. Can be modeled by powerful leaders. 4. Training programs should acknowledge the power of the hierarchy while attempting to

Low Power Distance

Countries

Research

Consequences

Findings

Sweden

Denmark

Norway

Finland

Austria

Germany

GB

Costa Rica

New Zealand

Australia

Israel

US

(moderate)

■ Managers and employees see need for information sharing

■ Decision structures are decentralized, and accountability may be diffuse.

■ Self-managed teams can be effective

■ Organizations are flat

1. Employees want input into Values Statement and Code of Conduct.
2. Code should recognize decentralized decisions and clearly locate final responsibility.
3. Ethics programs can encourage discussion across organization.
4. Institutionalized grievance channels expected, so whistle blowing can become a norm
5. Training can be provided by peers; warn that flat organizations can inhibit accountability

High Uncertainty Avoidance

Country Research Findings Consequences

Country	Research Findings	Consequences
Greece	■ Employees want managers to share information; clearly define issues	1. Values Statement necessary but not powerful
Portugal		2. Code of Conduct should be explicit; explain consequences
Japan	■ Education allows people to reduce uncertainty	3. Ethics Program should be rules-based
Argentina	■ Clear goals, rules and vision should be provided	4. Whistle blowing procedures must be codified and whistle blowers overtly protected and rewarded.
	■ Innovation is difficult	5. Training programs should provide thorough information; methods should be adapted to various levels; emotional issues should be addressed.
	■ Precision and punctuality valued	
	■ Belief in experts and expertise is fostered	

Low Uncertainty Avoidance

Country	Research Findings	Consequences
Singapore	<ul style="list-style-type: none"> ■ Can accept lack of certainty that comes with new information 	1. Values Statement readily accepted
Hong Kong		
Denmark		
Great Britain	<ul style="list-style-type: none"> ■ Consultative management style 	2. Usefulness of Code of Conduct should be emphasized
Ireland		
India	<ul style="list-style-type: none"> ■ May embrace freedom and avoid responsibility 	3. Ethics Program can be value-based
Sweden		
South Africa	<ul style="list-style-type: none"> ■ Clear boundaries needed 	4. Whistle-blowing can be expected if encouraged

US (moderately low)	<ul style="list-style-type: none"> ■ Self-managed teams can work ■ Intelligent layperson (generalists) and common sense are trusted 	5. Communication can acknowledge gray areas; should discuss limits of accountability

Summing it up

1. Values Statements Should

- reflect dominant values, whether individualism or collectivism

May or may not be meaningful to employees
Employees may or may not want input

2. Codes of Conduct Should

- Address issues specific to culture (and industry)
- Describe issues in terms that are relevant
- Describe consequences

May or may not be meaningful to employees
Employees may or may not want input

Summing it up:

3. Ethics program CAN be values-based where culture is characterized by

- Horizontal collectivism/horizontal individualism or
- Low power distance or
- Low uncertainty avoidance

e.g. Israel, Denmark, Australia, Sweden, Singapore, Hong Kong, India, South Africa, US, Japan, Great Britain, Germany

Summing it up:

Ethics program **MUST** be values-based where culture is characterized by

- Horizontal collectivism/horizontal individualism and
- Low power distance
and
- Low uncertainty avoidance

e.g. Denmark, Sweden (others)

■ Summing it up:

3. Ethics programs CAN be rules-based where culture is characterized by

- Vertical collectivism/individualism or
- High power distance or
- High uncertainty avoidance

e.g. France, **Germany**, **UK** , **US**, China, Singapore, Korea, India, Philippines, Venezuela, Mexico, Greece, Portugal, **Japan**, Argentina, Malaysia, Guatemala, Panama, Indonesia, Arab countries, West Africa

Summing it up:

Ethics programs **MUST** be rules-based where culture is characterized by

- Vertical collectivism/individualism and
- High power distance and
- High uncertainty avoidance

e.g. nowhere?

Summing it up:

4. Whistle blowing

- Most likely in vertical individualist cultures
- Difficult where there is high power distance or high uncertainty avoidance, but can be encouraged with attention to power and risk
- May require formal and informal channels
- Allow individual and group processes

Summing it up:

5. Communication and training

- Should take into account how knowledge is transferred and absorbed
- Is most effective between similar cultures
- Should be delivered by respected elders in collectivist cultures; by those with authority where power distance is high.
- Methods can vary according to whether knowledge is contextual or independent

Usefulness – culture as lever:

- Can use characteristics prescriptively, to create effective structures for transparency
- Can use characteristics diagnostically, to see why efforts were not successful
- Can use characteristics in collaboration with those affected, to increase knowledge and make management decisions more transparent
- Can go beyond structures discussed here, and consider how power distance will influence social reporting, for example, or how governance issues are affected by collectivism or uncertainty avoidance.

More research needed:

- What about countries that score in the middle?
- What about countries that have not been ranked (much of Eastern and Central Europe)?
- Will we see cultural convergence?
- What is the influence of the state?

Conclusion – for companies:

- Continuous dialogue necessary
 - Among HQ & branches
 - With all stakeholders
 - Explain apparent inconsistencies
- Escalating globalization will only increase scrutiny
- Transparency can become a competitive advantage