Managing the New Transparency: Cultural and Organizational Considerations

Mary–Ellen Boyle, Ph.D.
Clark University
Graduate School of Management
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

rationality
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?

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

- Individualism
- Power distance
- Uncertainty avoidance
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

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

## Countries

<table>
<thead>
<tr>
<th>Countries</th>
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<tbody>
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<td>Australia</td>
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<tr>
<td>Sweden</td>
</tr>
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</table>

## Research Findings

- Self is independent of ingroup but relatively equal to others
- Do not like people who stick out.
- Ignore information concerning hierarchy

## Consequences

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

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<th>Countries</th>
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<tbody>
<tr>
<td>France</td>
<td>Relatively affluent societies</td>
<td>1. Values Statements should appeal to excellence, being the best.</td>
</tr>
<tr>
<td>Germany</td>
<td>Independent</td>
<td>2. Codes of Conduct should emphasize individual accountability and action.</td>
</tr>
<tr>
<td>UK</td>
<td>Not consultative</td>
<td>3. Whistle blowing can be encouraged and expected; investigations must ascertain that reporting is not motivated by personal gain.</td>
</tr>
<tr>
<td>US</td>
<td>Desirable to “stick out”</td>
<td>4. Employees will need incentives if they are to discuss ethical issues.</td>
</tr>
<tr>
<td></td>
<td>Competitive</td>
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</tbody>
</table>
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

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<tr>
<td>Israel</td>
<td>1. Values Statement should emphasize the group, company, family, society.</td>
</tr>
<tr>
<td>Japan</td>
<td>2. Codes of Conduct should include historical, contextual information. Procedures should be put in place for hiring and working with relatives.</td>
</tr>
<tr>
<td>Brazil</td>
<td>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.</td>
</tr>
<tr>
<td>China</td>
<td>4. Emphasize program’s benefits/harms to the group.</td>
</tr>
<tr>
<td>Egypt</td>
<td>5. Firm should create mechanisms for team/group whistle-blowing and/or expect whistle blowing to be indirect.</td>
</tr>
<tr>
<td>India</td>
<td>6. Training can be focused at group level</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7. Case studies can be effective training methods.</td>
</tr>
<tr>
<td>Philippines</td>
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<tr>
<td>Venezuela</td>
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<tr>
<td>Chile</td>
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<tr>
<td>Mexico</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
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</tr>
<tr>
<td>Korea</td>
<td></td>
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### Horizontal Collectivism

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<tr>
<td>Israel</td>
<td>Self is merged with ingroup, family, community</td>
<td>1. Values Statement can refer to social equality, relationships with stakeholders.</td>
</tr>
<tr>
<td>(kibbutz)</td>
<td>Relational, interdependent</td>
<td>2. Code of Conduct will have authority in and of itself.</td>
</tr>
<tr>
<td>Japan</td>
<td>Emphasize ingroup goals, norms, relationships</td>
<td>3. Ethics Programs should be values-based, providing the companies’ values include family and community.</td>
</tr>
<tr>
<td></td>
<td>Prefer tacit systemic knowledge</td>
<td>4. Whistle blowing occurs when group agrees. Cannot expect whistle blowing that will harm a group member.</td>
</tr>
<tr>
<td></td>
<td>Consensual decision-making</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Equality is valued</td>
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</tr>
</tbody>
</table>
# Vertical Collectivism

## Countries
- China
- Singapore
- Korea
- India
- Brazil
- Egypt
- Nigeria
- Philippines
- Venezuela

## Research Findings
- Selves are different from other ingroup members
- Appropriate/desirable to stick out
- Sensitive to information from authorities; about hierarchy
- Knowledge transfer is difficult because

## Consequences
1. Values Statement should stress collective values, and appeal to higher authorities.
2. Codes of Conduct should acknowledge hierarchical relationships as well as strength of groups.
3. Ethics Programs should be rules based.
4. Will blow the whistle for the benefit of the group.
### High Power Distance

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<thead>
<tr>
<th>Countries</th>
<th>Research Findings</th>
<th>Consequences</th>
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</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>Information sharing is inhibited, requires time and energy</td>
<td>1. Employees will not expect input into Values Statement or Code</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Decisions are centralized</td>
<td>2. Ethics Programs should be rule-based; include mechanisms for centralized decisions.</td>
</tr>
<tr>
<td>Panama</td>
<td>Managers rely on rules</td>
<td></td>
</tr>
<tr>
<td>Phillipines</td>
<td>Managers doubt employees have useful information</td>
<td>3. Whistle blowing difficult. Can be modeled by powerful leaders.</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>Collaboration difficult</td>
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<tr>
<td>Indonesia</td>
<td>Responsibility resisted by those low in the hierarchy</td>
<td></td>
</tr>
<tr>
<td>Arab countries</td>
<td>Powerful leaders needed to implement changes</td>
<td>4. Training programs should acknowledge the power of the hierarchy while attempting to</td>
</tr>
<tr>
<td>West Africa</td>
<td>Grievance channels difficult to establish</td>
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</tbody>
</table>
## Low Power Distance

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<thead>
<tr>
<th>Countries</th>
<th>Research Findings</th>
<th>Consequences</th>
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<tbody>
<tr>
<td>Sweden</td>
<td>Managers and employees see need for information sharing</td>
<td>1. Employees want input into Values Statement and Code of Conduct.</td>
</tr>
<tr>
<td>Denmark</td>
<td></td>
<td>2. Code should recognize decentralized decisions and clearly locate final responsibility.</td>
</tr>
<tr>
<td>Norway</td>
<td></td>
<td>3. Ethics programs can encourage discussion across organization.</td>
</tr>
<tr>
<td>Finland</td>
<td>Decision structures are decentralized, and accountability may be diffuse.</td>
<td>4. Institutionalized grievance channels expected, so whistle blowing can become a norm</td>
</tr>
<tr>
<td>Austria</td>
<td></td>
<td>5. Training can be provided by peers; warn that flat organizations can inhibit accountability</td>
</tr>
<tr>
<td>Germany</td>
<td>Self–managed teams can be effective</td>
<td></td>
</tr>
<tr>
<td>GB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Organizations are flat</td>
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</tr>
<tr>
<td>New Zealand</td>
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<tr>
<td>Australia</td>
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<tr>
<td>Israel</td>
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<tr>
<td>US</td>
<td></td>
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<tr>
<td>(moderate)</td>
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</tbody>
</table>
## High Uncertainty Avoidance

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<thead>
<tr>
<th>Countries</th>
<th>Research Findings</th>
<th>Consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>Employees want managers to share information; clearly define issues</td>
<td>1. Values Statement necessary but not powerful</td>
</tr>
<tr>
<td>Portugal</td>
<td>Education allows people to reduce uncertainty</td>
<td>2. Code of Conduct should be explicit; explain consequences</td>
</tr>
<tr>
<td>Japan</td>
<td>Clear goals, rules and vision should be provided</td>
<td>3. Ethics Program should be rules-based</td>
</tr>
<tr>
<td>Argentina</td>
<td>Innovation is difficult</td>
<td>4. Whistle blowing procedures must be codified and whistle blowers overtly protected and rewarded.</td>
</tr>
<tr>
<td></td>
<td>Precision and punctuality valued</td>
<td>5. Training programs should provide thorough information; methods should be adapted to various levels; emotional issues should be addressed.</td>
</tr>
</tbody>
</table>
## Low Uncertainty Avoidance

<table>
<thead>
<tr>
<th>Country</th>
<th>Research Findings</th>
<th>Consequences</th>
</tr>
</thead>
</table>
| Singapore     | - Can accept lack of certainty that comes with new information  
                - Consultative management style  
                - May embrace freedom and avoid responsibility  
                - Clear boundaries needed  
                - Self-managed teams can work  
                - Intelligent layperson (generalists) and common sense are trusted                          | 1. Values Statement readily accepted  
                2. Usefulness of Code of Conduct should be emphasized  
                3. Ethics Program can be value-based  
                4. Whistle-blowing can be expected if encouraged  
                5. Communication can acknowledge gray areas; should discuss limits of accountability  |
| Hong Kong     |                                                                                                                                                                                                                  |                                                                                                |
| Denmark       |                                                                                                                                                                                                                  |                                                                                                |
| Great Britain |                                                                                                                                                                                                                  |                                                                                                |
| Ireland       |                                                                                                                                                                                                                  |                                                                                                |
| India         |                                                                                                                                                                                                                  |                                                                                                |
| Sweden        |                                                                                                                                                                                                                  |                                                                                                |
| South Africa  |                                                                                                                                                                                                                  |                                                                                                |
| US (moderately low) |                                                                                                                                                                                                                   |                                                                                                |
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
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