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THE UNIVERSITY OF MELBOURNE

# Managing for Organisational Integrity

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2012 Gourlay Visiting Professor of  
Ethics in Business

*RACV Club, October 3*



# From Europe to Australia





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## Trucks ...



... are longer



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## Frogs...



...are bigger



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## So are football teams...



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[www.trinity.unimelb.edu.au](http://www.trinity.unimelb.edu.au)





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$$AU = NL^2$$





## Women...



Last **YEAR** Gina Rinehart's wealth grew **\$19b**. That's:

- **\$52m** a day
- **\$2m** an hour
- **\$36k** a minute
- **\$598** a second

...are richer



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# 'WALL STREET, WE HAVE A PROBLEM'





THE KAY REVIEW OF UK EQUITY  
MARKETS AND LONG-TERM  
DECISION MAKING

FINAL REPORT

JULY 2012

“Financial intermediation depends on trust and confidence: the trust and confidence that savers who invest funds have in those they choose to manage these funds, and the trust and confidence of investors in the businesses they support.”



## Three Aspects of Professional Integrity



Integrity as rule



Integrity as  
dialogue



Integrity as  
conscience



1. Integrity  
of management



+

Ethically  
neutral

Ethically  
effective

2. Management  
of integrity

Unethical

Hypocritical



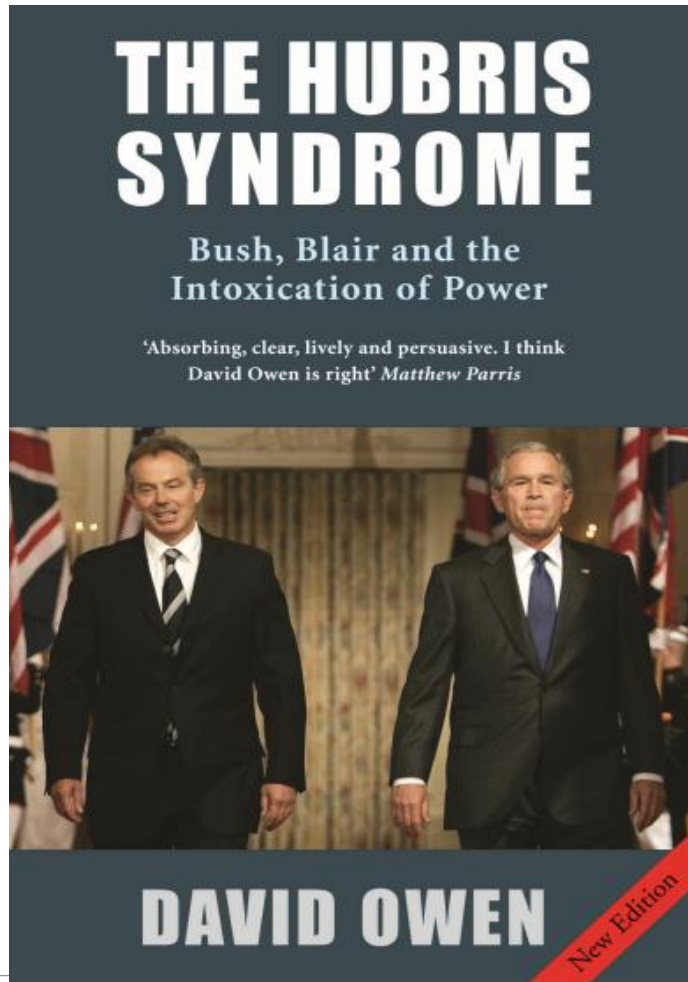


## Characteristics of CEOs involved in corporate scandals

- Excessive financial incentives
  - ‘Sun King’ behaviour
  - High press coverage prior to their fall
  - Unrealistic growth targets
  - Non-intervention by non-executive or supervisory board members
  - 40% drop in share price prior to the scandal
- 
- Formal corporate governance does not matter



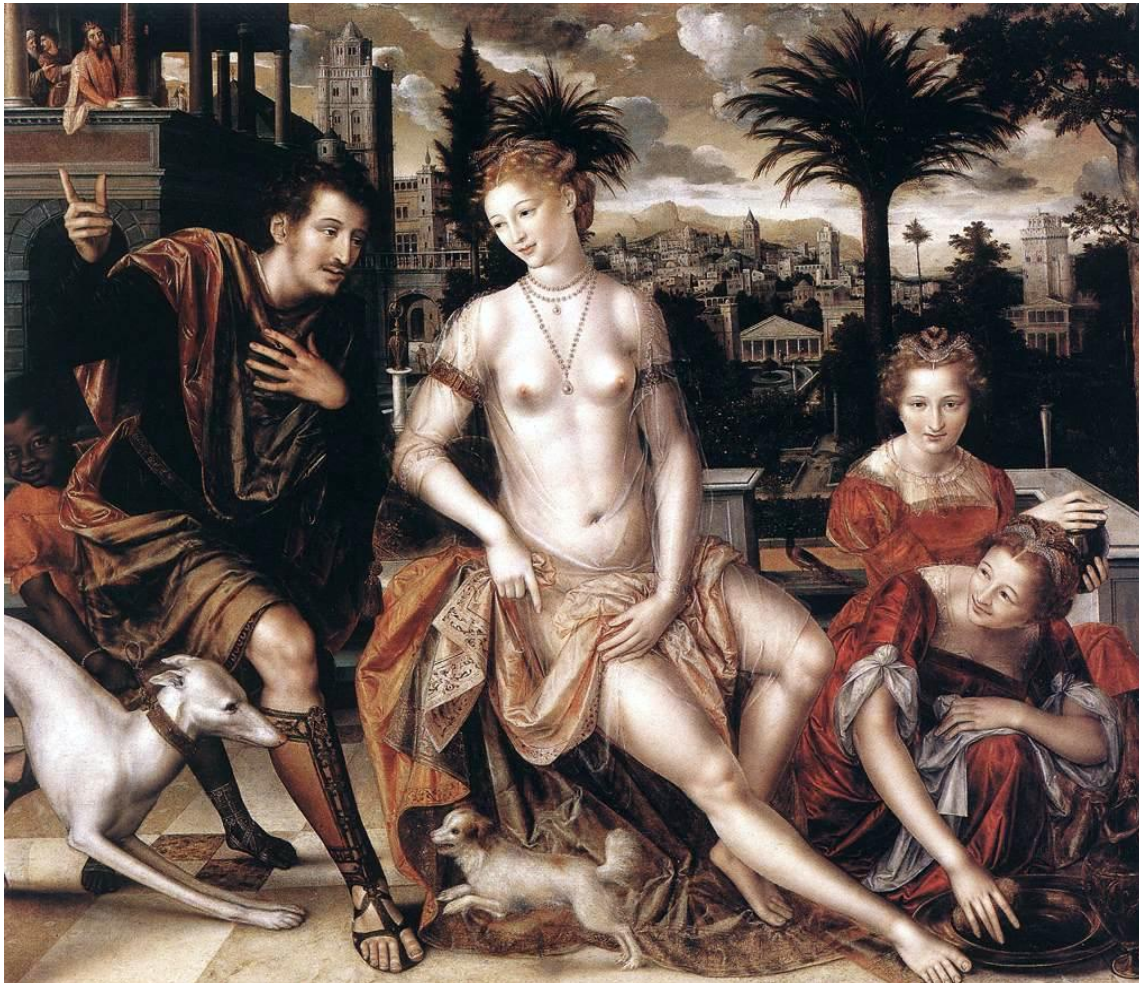
# The Hubris Syndrome



- Initial resounding success
- Exaggerated self-confidence
- Contempt for the advice of others
- Not accountable to peers
- Loss of contact with reality, often associated with progressive isolation
- Messianism
- Nemesis



# The Bathsheba syndrome



- Initial resounding success
- Loss of strategic focus in success
- Unrestrained control of organisational resources
- Inflated belief in personal ability to control outcomes



## Conclusions about the Group Executive Management Committee:

- *GEMC are not operating as a team*
- *Conversations are typically bilateral*
- *Performance targets consume too much of the agenda*
- *Discussions often seem bullying in nature*
- *The atmosphere is often negative and is at a low point currently*



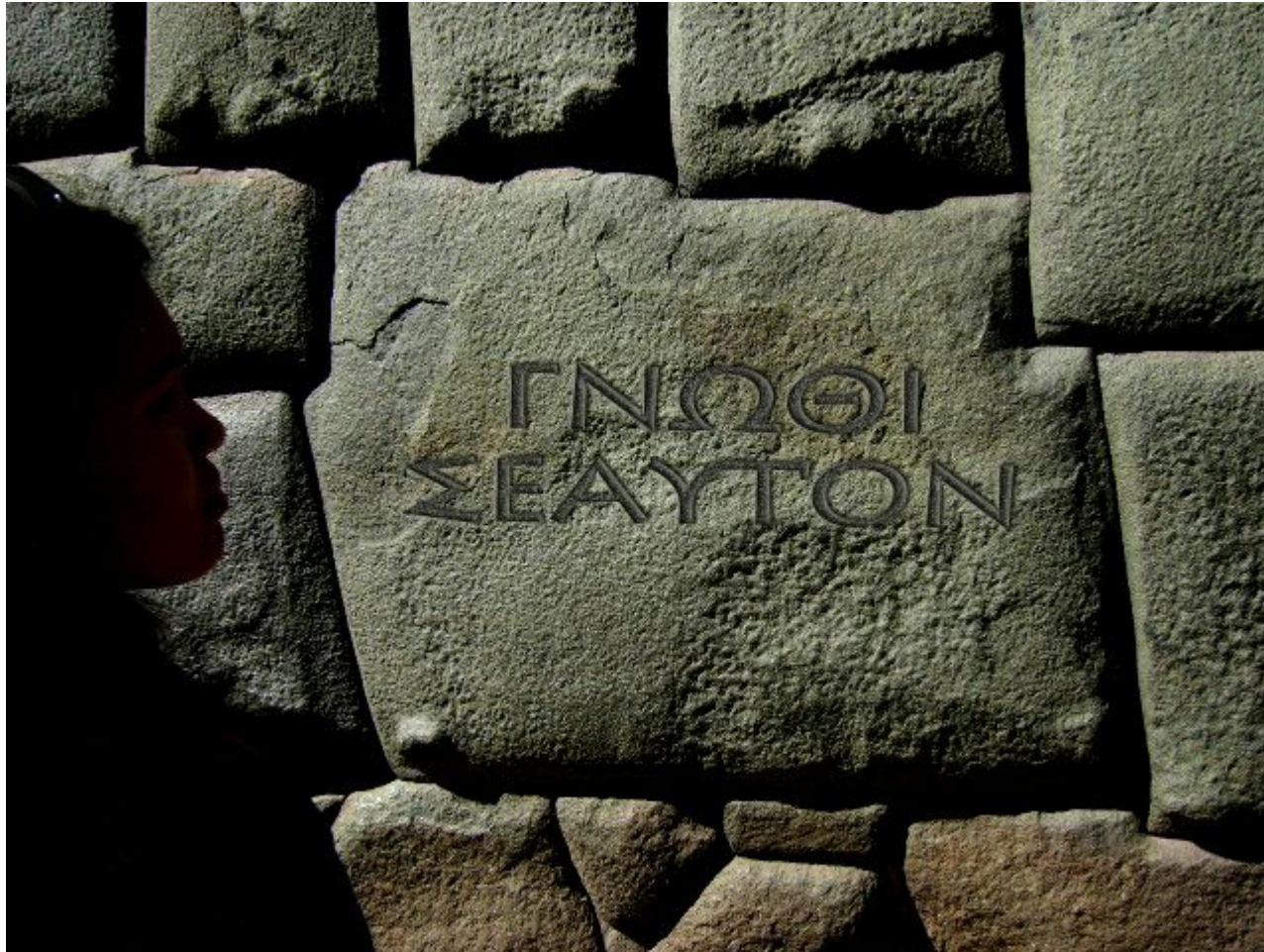
**The failure of the Royal Bank of Scotland | FSA Board Report, p. 233.**





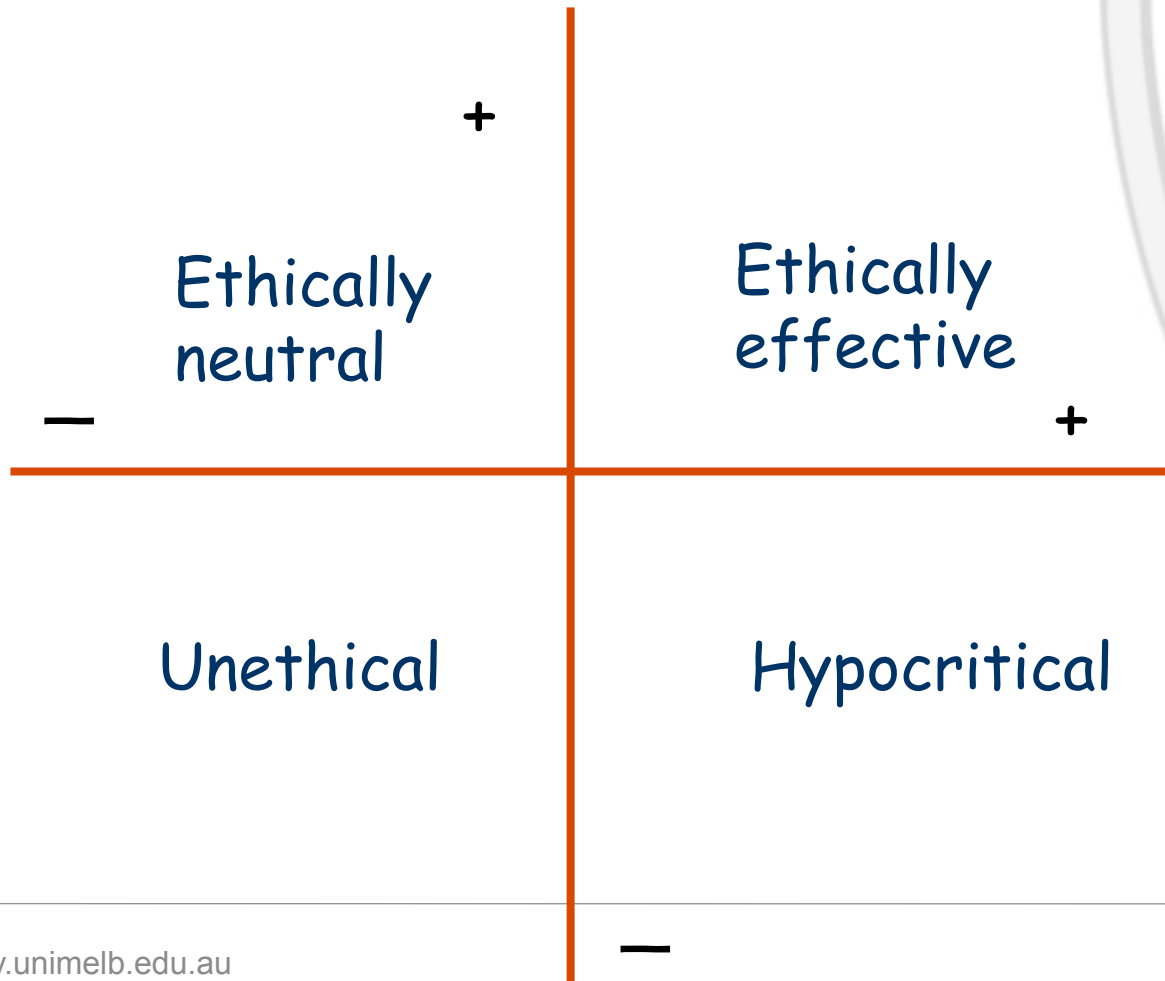
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# Lesson for managers





*1. Integrity of Management*

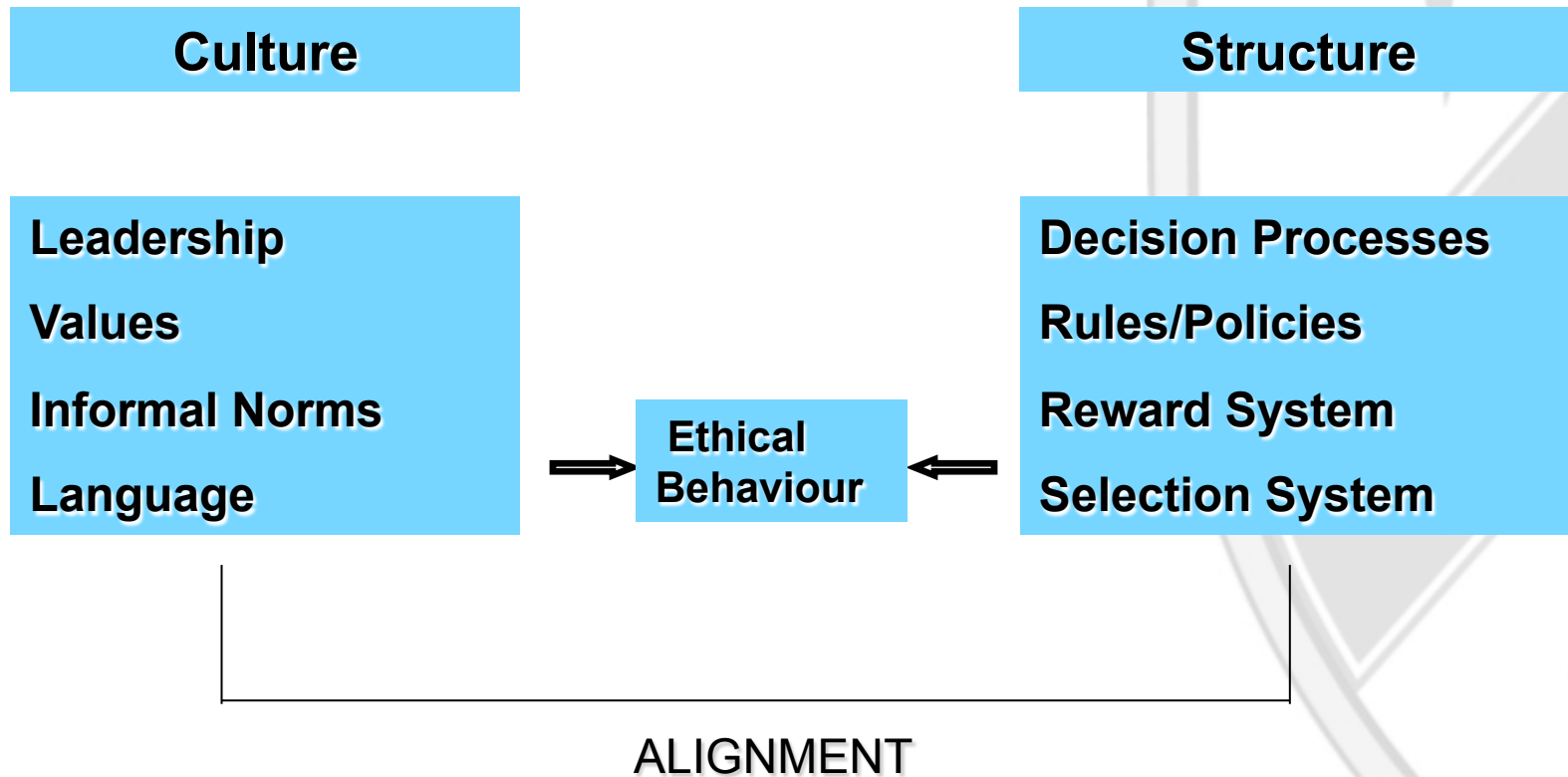


*2. Management of Integrity*





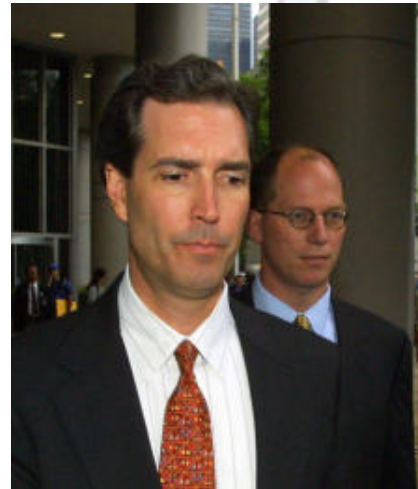
# Managing for organisational integrity





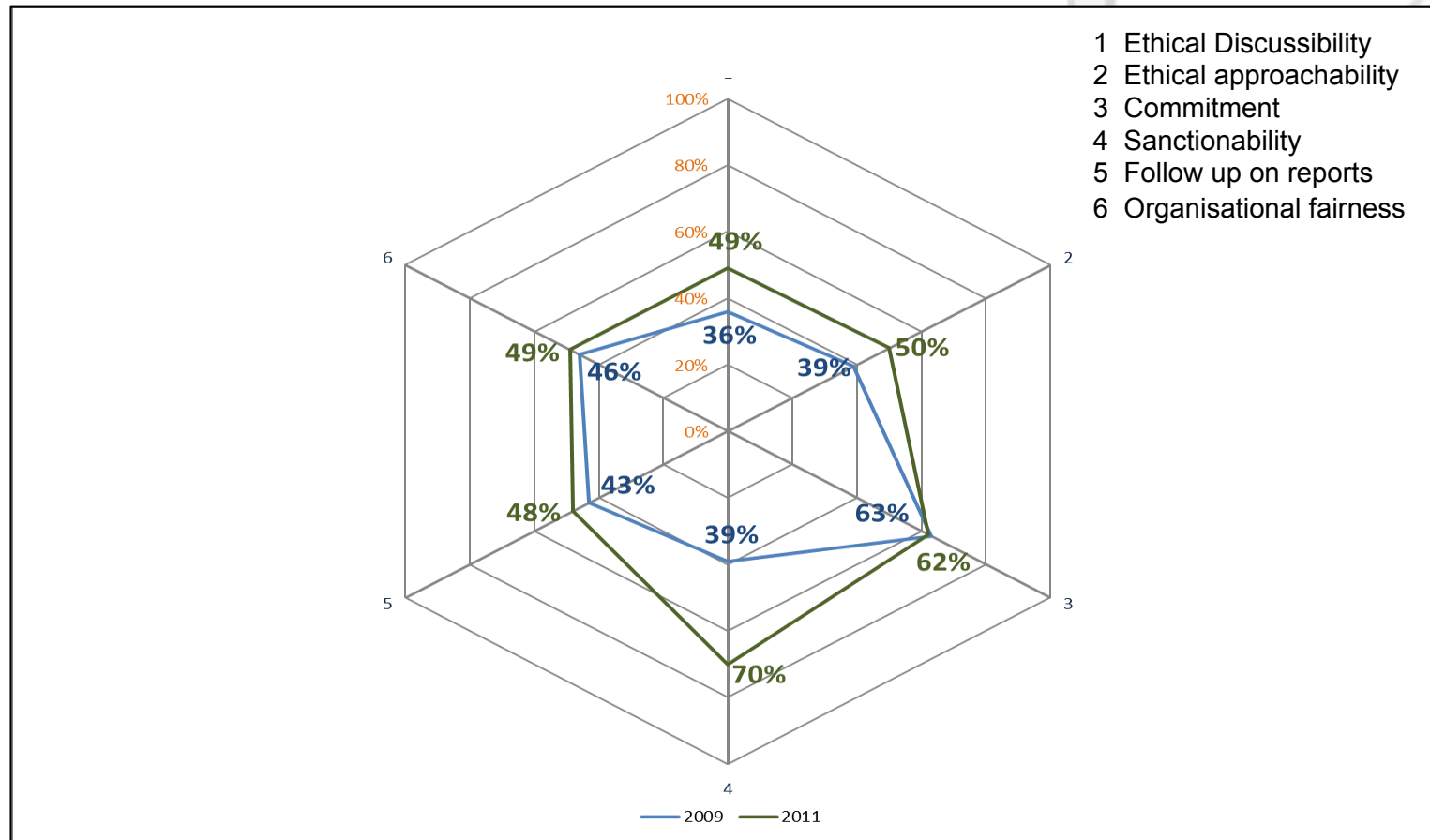
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# STORIES OF ARTHUR ANDERSEN





# ORGANISATIONAL CULTURE IN A HOUSING





# Fairness scale

|                          |                 |                          |                       |              |                       |
|--------------------------|-----------------|--------------------------|-----------------------|--------------|-----------------------|
| 1.                       | 2.              | 3.                       | 4.                    | 5.           | 6.                    |
| <b>Strongly disagree</b> | <b>Disagree</b> | <b>Disagree somewhat</b> | <b>Agree somewhat</b> | <b>Agree</b> | <b>Strongly agree</b> |

1. In general, this company treats its employees fairly
2. Employees in this organization are rewarded fairly
3. Employees are treated with dignity and respect in this organization
4. Important decisions about employees are made in an unbiased manner here



# TWO STRATEGIES FOR THE MANAGEMENT OF ORGANISATIONAL INTEGRITY

Rules-based

Responsibility-based



- Objective: prevent misconduct
- Ethos: conformity with organisational standards and the law
- Leadership: corporate legal
- Methods: reduced discretion, auditing and controls, penalties
- Behavioural assumptions: people are guided by self-interest





## RULES ..... MEANINGFUL?





## RULES ..... CLARITY?





## RULES..... COMPLIANCE?

*'Bicycles stationed  
here will be  
removed'*

*The police*





## Characteristics of a responsibility strategy

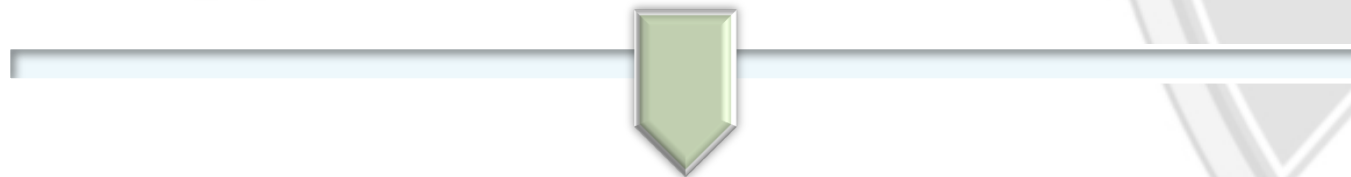
- Objective: enable responsible conduct
- Ethos: self-governance according to chosen standards
- Leadership: management
- Methods: education, leadership, dialogue
- Behavioral assumptions: responsible social beings, guided by values



# RULES WHEN NECESSARY; RESPONSIBILITY WHEN POSSIBLE

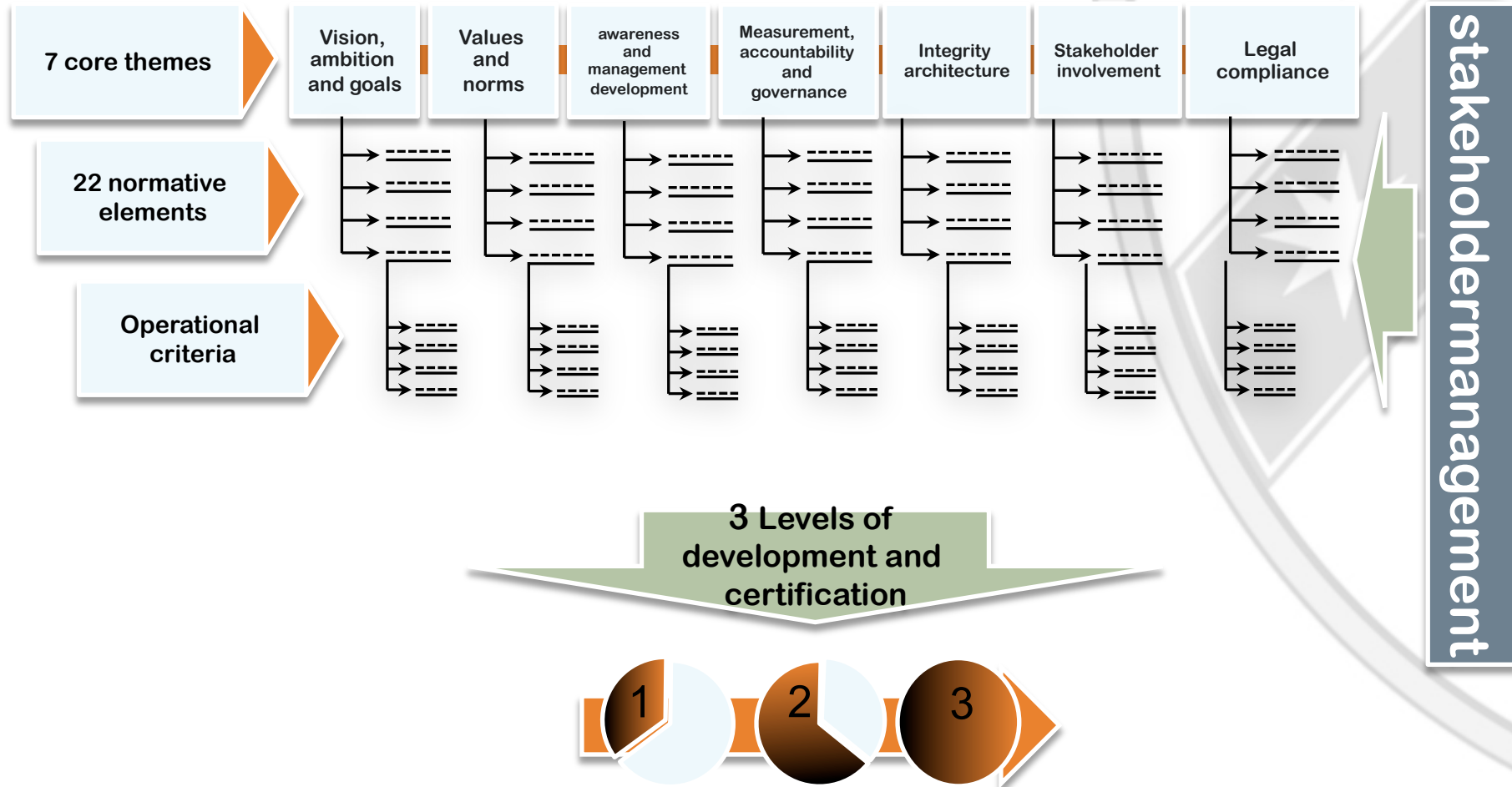
**RULES-BASED  
STRATEGY**

**RESPONSIBILITY  
STRATEGY**





# Integrity Management Audit Framework





- Gnothi seauton: know yourself.
- Understand the culture of your organisation.
- The integrity of your organisation should and can be managed.
- Empower your employees to take responsibility.
- ‘Tone at the top, listen to the bottom’.