Ethical Culture
in the Utilities & Energy Industries

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About Me

Jason Lunday, VP, Product Development & Advisory Services,

Syntrio, Inc. – Provider of Online/Offline Education
Compliance, Employment Law, Health & Safety, Information Security Libraries

- 25+ years in ethics and compliance

- 3 in-house positions (VeriSign, Premier, Inc., Goldman Sachs)

- Many years in consulting (including Ethics Resource Center, Arthur Andersen)

- 30+ articles and case studies

- MBA, with focus in business ethics & organizational behavior

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What They're Saying about Culture

"Culture, more than rule books, determines how an organization behaves."

— Warren Buffett, Berkshire Hathaway Letters to Shareholders

"I came to see, in my time at IBM, that culture isn't just one aspect of the game, it *is* the game. In the end, an organization is nothing more than the collective capacity of its people to create value."

– Louis Gerstner, former CEO, IBM

"Culture eats strategy for breakfast."
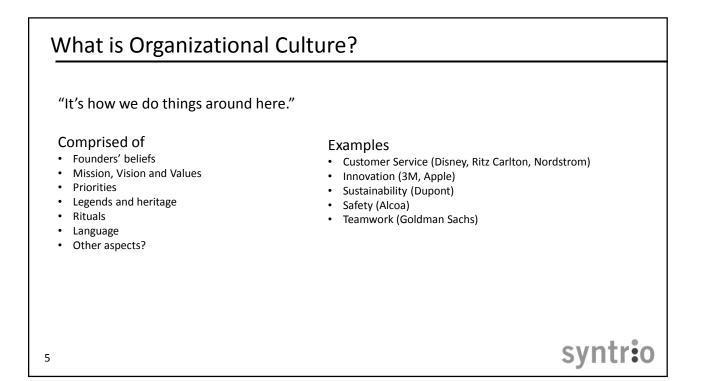
– Attributed to Peter Drucker

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What is "Culture"?

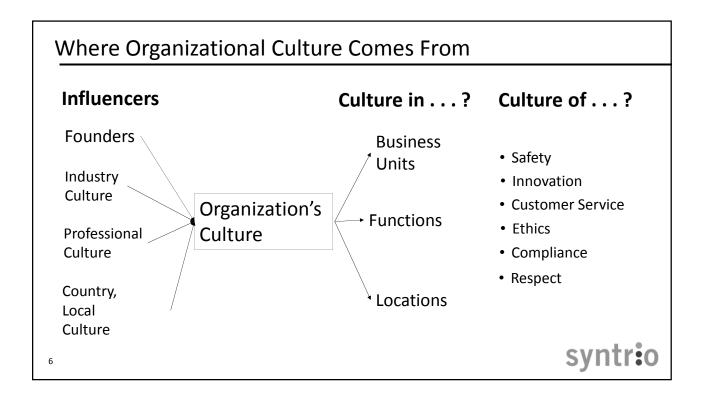"A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."
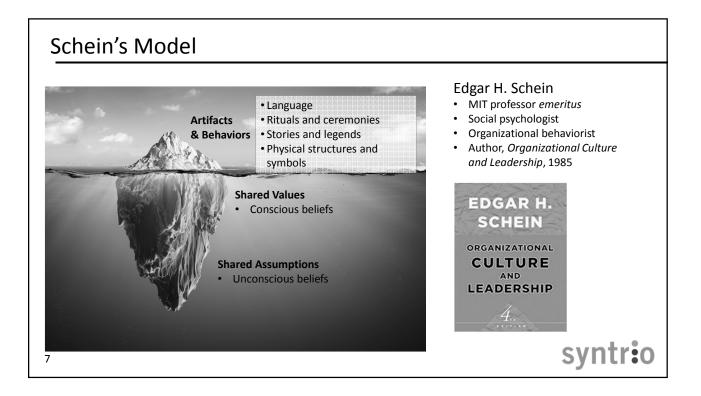
— Edgar Schein

'Socially acquired behavior patterns.'

– Henry Pratt Fairchild

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What is Organizational Culture?

"It's how we do things around here."

Comprised of
- Founders' beliefs
- Mission, Vision and Values
- Priorities
- Legends and heritage
- Rituals
- Language
- Other aspects?

Examples
- Customer Service (Disney, Ritz Carlton, Nordstrom)
- Innovation (3M, Apple)
- Sustainability (Dupont)
- Safety (Alcoa)
- Teamwork (Goldman Sachs)

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Where Organizational Culture Comes From

Influencers

Founders

Industry Culture

Professional Culture

Country, Local Culture

→ Organization's Culture

Culture in . . . ?

Business Units

Functions

Locations

Culture of . . . ?

- Safety
- Innovation
- Customer Service
- Ethics
- Compliance
- Respect

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Schein's Model

Artifacts & Behaviors
- Language
- Rituals and ceremonies
- Stories and legends
- Physical structures and symbols

Shared Values
- Conscious beliefs

Shared Assumptions
- Unconscious beliefs

Edgar H. Schein
- MIT professor *emeritus*
- Social psychologist
- Organizational behaviorist
- Author, *Organizational Culture and Leadership*, 1985

EDGAR H. SCHEIN
ORGANIZATIONAL **CULTURE** AND **LEADERSHIP**
4. EDITION

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Why Focus on Ethical Culture?

Federal Sentencing Guidelines
"[A]n organization shall . . . otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law."

Attention in the Press

Regulators Taking Interest

Research Studies

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What Can You Do About Ethical Culture?

- To **sustain** it . . . You have to *improve* it.

- To **improve** it . . . You have to *manage* it.

- To **manage** it . . . You have to *assess* it.

- To **assess** it . . . You have to *understand* it.

- To **understand** it . . . You have to *identify* it.

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Research into Ethical Culture

Studies and Frameworks

1. Trevino/Arthur Andersen: Survey (1999)
2. Ethics Resource Center: National Business Ethics Survey (2013)
3. KPMG: Integrity Survey
4. Institute of Business: Ethics Employee Views of Ethics at Work Survey
5. CEB: Cultural Diagnostic Survey (2010)
6. OCEG: Red Book v.3
7. Ethisphere: Ethical Culture & Perceptions Assessment
8. LRN: Program Effectiveness Index
9. Ethical Systems: Ethical Culture Measurement

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Ethical Culture Research – Select Findings

1999 Arthur Andersen Study (Trevino, Weaver *et al*)
As a set, the *ethical culture factors emerged as the most important influential factors*. Of these factors, leadership, fairness perceptions, the perception that ethics is discussed in the organization, and the perception that ethical behavior is rewarded were the most significant factors in the study.

2009 Ethics Resource Center National Business Ethics Survey "Ethical Culture Supplement"
In a "strong" ethical culture, ethical values matter and that is apparent in the actions of employees (especially management), company policy and procedures, and decisions about who gets rewarded, who gets punished, and how to weather tough times.

2012 Institute of Business Ethics "Ethics at Work Survey"
Statistically significant links can be made between indicators of an ethical culture and employees' perceptions of behaviour – namely the practice of honesty, pressure to compromise ethical standards, awareness of misconduct and speaking up about misconduct.

2009 CEB "Stewarding a Culture of Integrity"
Of all potential drivers that increase employee performance, *manager demonstrations of corporate values and ethical behavior are the most effective*, improving performance by 12% and 9%, respectively.

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Ethical Culture Research – Key Drivers

1999 Arthur Andersen Study (Trevino, Weaver *et al*)
What helps the most [in affecting an organization's ethical and compliance outcomes] are *consistency between policies and actions* as well as *dimensions of the organization's ethical culture such as* **ethical leadership, fair treatment of employees, and open discussion of ethics in the organization.**

2009 Ethics Resource Center National Business Ethics Survey "Ethical Culture Supplement"
- Ethical culture continues to have a *profound impact on pressure, observed misconduct, reporting of observed misconduct, and rates of retaliation against reporters*.
- *Actions—and perceptions—of top managers* drive the ethical culture of the company and *have a significant impact on outcomes*.
- Top management culture is associated with the greatest increases in reporting [misconduct].

2009 CEB "Stewarding a Culture of Integrity"
- Drive Comfort Speaking Up
- Train Leaders to Model and Communicate Corporate Values
- Foster a Perception of Organizational Justice

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Ethical Culture Characteristics ('Doing the Right Thing')

Orientation
- Purpose of the business; balance among priorities
- Principles/values
- Rules (external, internal)
- Duty to stakeholders
- Business ecosystem (e.g., Conscious Capitalism)
- Risk management
- Leadership protection

Tone set by . . .
- Senior leadership
- Direct supervisor
- Peers

Also maybe . . .
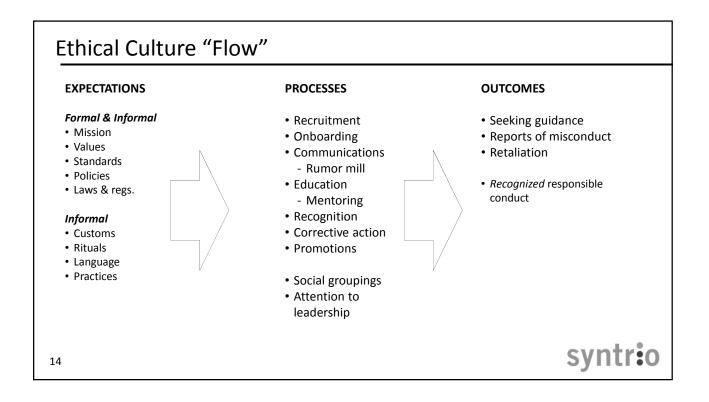- Industry peers
- Competition
- Customers (esp. B-to-B)

Application
- Expectations
- Role modeling
- Discussion and decision making
- Communication
  - Transparency
  - Openness
  - Sharing; collaboration
- Education
- Process application and integrity
- Recognition; incentives
- Accountability; corrective actions
- Seeking guidance
- Raising concerns
- Response to questions, concerns, misconduct
- Retaliation

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Ethical Culture "Flow"

EXPECTATIONS

Formal & Informal
- Mission
- Values
- Standards
- Policies
- Laws & regs.

Informal
- Customs
- Rituals
- Language
- Practices

PROCESSES

- Recruitment
- Onboarding
- Communications
  - Rumor mill
- Education
  - Mentoring
- Recognition
- Corrective action
- Promotions

- Social groupings
- Attention to leadership

OUTCOMES

- Seeking guidance
- Reports of misconduct
- Retaliation

- *Recognized* responsible conduct

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The Cycle of Influence & Strengthening

- How does the cycle unfold?

- How does the cycle build on itself?

- Which most influences the other(s)?

"I continue to believe that the most important way of staying focused in this sea of possibilities is to keep exploring how leadership and culture are fundamentally intertwined."

— Edgar Schein, *Organizational Culture and Leadership*

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Organization Culture → Ethical Culture

How do these work together?

Organization Culture
"It's how we do things around here."

- Core beliefs (Mission and Values)
- Perspective on stakeholders
- Priorities
- Communications
- Rituals
- Language
- Espoused beliefs
- Risk appetite

Ethical Culture
"Doing the right thing."

- Meeting expectations
  - Laws, regulations
  - Industry, professional standards
  - Contracts, agreements
  - Standards and policies
- Recognizing, evaluating and resolving ethics issues
- Discussing questions, seeking guidance
- Raising concerns
- Fixing problems that create ethics issues

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Industry Culture Characteristics

How do these affect Ethical Culture Characteristics?

Utilities

- Monopoly
- Highly regulated
- Bureaucracy
- Organized labor
- Power reliability
- Public interest/duty
- Generator site operations
- Regional operations
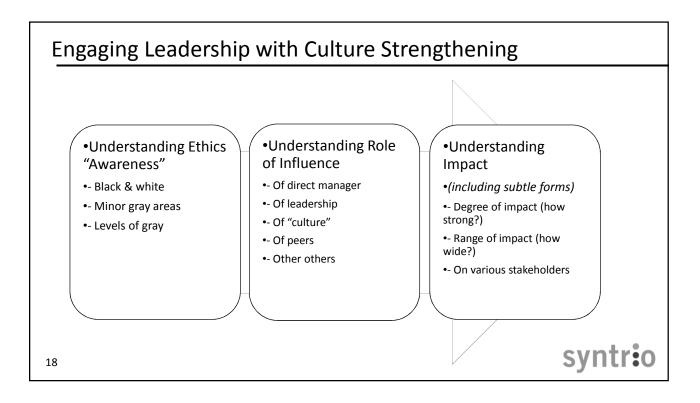- Environmental (production, post-consumer waste)

Energy

- Financial and operational risk; sometimes 'lumpy' results
- Less regulatory oversight
- Extractive industry; commodity dependent
- Global business, often in lesser developed regions
- Field-based operations
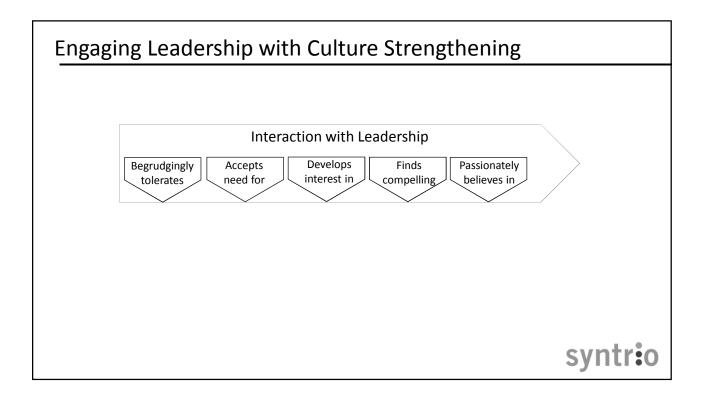- Environmental impact (exploration, extraction, refining, post-consumer waste)
- Human Rights

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Engaging Leadership with Culture Strengthening

- **Understanding Ethics "Awareness"**
  - - Black & white
  - - Minor gray areas
  - - Levels of gray

- **Understanding Role of Influence**
  - - Of direct manager
  - - Of leadership
  - - Of "culture"
  - - Of peers
  - - Other others

- **Understanding Impact**
  - *(including subtle forms)*
  - - Degree of impact (how strong?)
  - - Range of impact (how wide?)
  - - On various stakeholders

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Engaging Leadership with Culture Strengthening

Interaction with Leadership

| Begrudgingly tolerates | Accepts need for | Develops interest in | Finds compelling | Passionately believes in |

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Questions?

Comments?

Thank You!

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Applicable Risk Topics

Topic	Utilities	Energy	Topic	Utilities	Energy
Discrimination		✓	Security	✓	✓
Substance use	✓		Human Rights		✓✓
Conflicts of interest			Health & Safety	✓✓	✓✓
Gifts/Entertainment		✓✓	Int'l. Trade (exports, boycotts)		✓✓
Bribery		✓✓	Money laundering		
Personal Info.	✓		Supply chain		✓✓
Antitrust	✓		Community engagement		✓✓
Lobbying	✓	✓			
Political Contributions	✓	✓			
Govt. Relations	✓✓				
Product Safety	✓	✓			
Environmental	✓✓	✓✓			

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