How are hedge fund activists changing the landscape of corporate governance?

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Honesty, trust, transparency, and mutual respect are hallmarks of excellent organisations; and strengthening such organisational integrity is typically a key aim of leaders and other employees, as well as, increasingly, being demanded by the media and the public. Yet a succession of high-profile scandals, ranging from safety failures, corruption, and false accounting to sexual harassment, bullying, discrimination, continue to plague business, charities and the public sector. It is easy to blame individual “bad apples” for problems with organisational integrity. But, more often than not, the incentives, culture and structure in an organisation may be the real culprits.

“Getting results” may be prioritised over “doing things by the book.”

“Dark corners” of an organisation may allow or encourage hidden unethical behaviour.

The powerful may feel, or indeed, be, protected against those they may abuse.

Those raising ethical concerns may stand accused of disloyalty, be alienated from colleagues, and damage their reputations and even careers.

The pursuit of short-term profit may frequently clash with longer-term ethical goals, both within and beyond, the organisation.

Understanding ethics in the context of organisations also raises deep conceptual challenges. The study of ethics is often pursued as if individuals face moral challenges alone, and with no particular role or responsibilities. Yet so much of our moral decision-making is made by people operating interdependently, and with particular tasks and roles (implementing a policy, defending a client, managing a team), and governed by rich sets of organisational rules and norms. Organisations themselves are moral actors, with significant ethical impacts on their staff, suppliers, customers, partners, and beyond. These raise the questions about what it is to be not merely a good person, but an ethical leader, manager, lawyer, banker or accountant.

And, perhaps more fundamentally, how can we think about, and help design organisations, markets, and regulations, to enhance their ethics and integrity.

Warwick Business School’s project, Leading Integrity, running in the first half of 2018, aimed to kick-start discussions of these issues. We commissioned a number of briefing papers exploring key ethical issues facing contemporary organisations, a more detailed case study, and a large-scale survey exploring ethical behaviours in the workplace. The project culminated in an academic conference, and workshops with practitioners and policy-makers on key ethical challenges for organisations today, both held at the WBS campus at the Shard in central London. This report outlines and summarizes the results of the project. Our aim is not to present a set of conclusions, but rather to help set an agenda, stimulating future research, collaboration and above all practical action.

As a leading business school, WBS sees one of its primary goals as helping current and future generations of leaders, across all sectors, lead with integrity, leaderships that can help create the ethical organisation that will sustain and nurture their employees and be forces for good in the wider world. Indeed, we believe there is no more pressing agenda. We hope this report will stimulate further thought and action, within and more importantly beyond the academic community, that can drive progress towards the next generation of ethical organisations, regulations and policy that the world urgently needs.

If you or your organisation would like to join the discussion, do get in touch!

Nick Chater, Marianna Fotaki, Haridimos Tsoukas and Edward Gardiner
Project activity
The subject of organisational ethics spans many disciplines, from organisational behaviour to philosophy and artificial intelligence. This report does not attempt to review or reconcile all of this literature. Instead, we have commissioned briefing papers on a number of key ethical issues that reflect the diversity of the subject. Each briefing paper provides a summary of the relevant research and the real-world implications, helping to cross the divide between research and practice.

We reviewed a range of themes when researching these topics, including whistleblowing; globalisation and different moral codes; sales, marketing and deceit; the rights and obligations attached to different roles; ethical policies within organisations; global governance; gender issues; fraud and corruption; corporate social responsibility; executive compensation; corporate culture; mistreatment of employees; and data security. The following briefing papers touch on some of these topics and more:

1. How can organisations change towards a more ethical culture? **Miranda Lewis**
2. How do people justify inappropriate acts? **Marta González-Iraizoz**
3. When should information be kept public or private? **Dr Jieun Ryu**
4. What is the role of technology in ethical practices in organisations? **Alina Gutoreva**
5. Are ethicality and profitability mutually exclusive? **Dr Jieun Ryu**
6. What responsibilities do businesses have towards human rights? **Dr Rita Mota**
7. How are hedge fund activists changing the landscape of corporate governance? **Dr Ellen Y. He**
8. What are the different corporate response strategies following an ethical scandal? **Sichao Ge**
9. Can integrity be measured within organisations? **Miranda Lewis**
10. An experiment on deception and reciprocity. Case study **Dr Despoina Alempaki (with Gönül Doğan and Silvia Saccardo)**
Recent trends in the business world are pointing towards the rise of ethical organisations. While only some decades ago, being ethical was considered an advantage for organisations in terms of competitiveness and positive reputation effects, a mere additional aspect to the business model and proposition, nowadays society has become more demanding towards businesses. Ethical organisations are no longer considered to be the result of a specific strategic choice with a focus on differentiation within the marketplace. Instead, they are increasingly seen as the norm, the benchmark to which all organisations should endeavour to aspire to. In the case of newly founded businesses, their ethicality is part of the design of the organisation from the start. However, for businesses which were started decades ago, in a completely different scenario and often with a strong history of well-embedded values, this implies that change processes need to be undertaken and introduced in the business.

Change in organisations and challenges of cultural change
Change processes can take different forms and shapes in organisations and have been classified in the literature on the basis of a number of factors. Some authors have focused on the trigger of change, external (i.e. technological changes, variations in the economy) as opposed to internal (i.e. new strategic directions, product innovation). Others have looked at the entity of change processes, incremental or radical. Further studies discuss the object of change, such as organisational structures, processes, technology.

In the case of change around organisational culture, there are a number of specific challenges. The reason for this is given by the nature of organisational culture, as effectively represented by the well-known iceberg metaphor. Schein’s model of organisational culture depicts a series of layers positioned at different symbolic levels of depth (Schein, 1985). These layers range from those of more overt nature and observable (people, language, processes, structures and technology, for instance), and those which are more covert and are deeply embedded in the organisation (values, beliefs, attitudes, feelings).

This model is useful to be able to grasp the interrelations between artefacts, espoused values and underlying assumptions. They inform us of the complexities that need to be taken into account when implementing effective change processes, which cannot be limited to the overt but also need to take into account the deeper layers of culture, referring to individuals’ mindsets, attitudes and values. Clearly, the challenge here is represented not only by how to access these deeper layers embodied by individuals but also by the likelihood of encountering individuals’ resistance to change. This is often viewed as a natural reaction to change, a personal process of coming to terms to what change will mean, thus implying that effective change process will always require time (Piderit, 2000).

Change management models
Given the high risk of failure which can emerge with organisational change, especially in the case of cultural change, scholars have endeavoured to provide prescriptive models outlining the most effective and efficient ways of implementing organisational change. The literature on change management presents a wide variety of models based on different factors and views of change.

One of the earliest and most popular change management models was theorized by Lewin (1947). Simple in its nature, the model structures the change process in three main stages. The first phase is more of preparatory nature to change. Known as “unfreeze”, it refers to a diagnosis phase and to the acquisition of support within the organisation. The second phase consists in the actual implementation of change. Finally, the model concludes with a “refreeze” phase, which ensures the anchoring of the change within the organisation’s culture.

Another popular model by Kotter (1996) adopts a similar logic but with a greater focus on the individuals involved in change processes. The stages of this model are a total of eight: creating a sense of urgency, building a core coalition, forming a strategic vision, getting everyone on board, removing barriers, generating short-term wins, sustaining acceleration and setting changes in stone.

A third interesting tool for change management is represented by the ADKAR model (Hiatt, 2006). Here the focus is on the individual level, based on the assumption that to be able to implement change effectively, it is necessary to create the right conditions for each individual affected by the change processes to adopt the changes in question. The model entails five dimensions: awareness (an individual’s understanding of the need for
change), desire (the will to support and be part of the change), knowledge (the information on how to change), ability (the skills to be able to change) and reinforcement (the ability and the environment to sustain change).

**Change models for an ethical culture**
The literature on ethical culture in organisations presents models based on the idea of graduality of change, in order to ensure change reaches the deeper levels of organisational culture. To this end, Reidenbach and Robin (1991) discuss several stages to ethical culture change, moving from the amoral organisation to the ethical organisation. Intermediate stages in this model are represented by the legalistic (based on complying to legal frameworks) and the responsive organisation, where an ethical dimension is increasingly valued (Reidenbach, Robin, 1991).

However, often the development of an ethical organisational culture is triggered by specific events, as in the case of scandals which have hit the headlines and for which organisations fall under public scrutiny. In these situations, there is a high risk of failure of the entire business and therefore ethical organisational change cannot follow a gradual process but requires a radical turnaround process, to give clear and immediate signals to the market, recover trust and rebuild the company’s reputation.

The case of the 2006 bribery scandal in Siemens is one example of radical organisational change processes, developing a more ethical culture which has been openly praised by experts in the field. Here, once internal and regulatory investigations had shed light on the fact that corruption in the company was not merely related to isolated events but was a structural part of the company culture, “a system of organised irresponsibility”, as later defined by judges, immediate actions were called for in order to implement change. These actions were aimed at different levels of organisational culture with differing time horizons in mind. On a more overt level, focus fell on the people who were part of the organisation. For instance, the then-CEO was removed and a leading anti-corruption expert was then nominated as a company adviser. Strict new compliance processes and practices to encourage whistleblowing were introduced. Moving to a deeper level of culture with a longer-term perspective, specific training and education programmes were introduced throughout the organisation.

**The role of leadership in change management**
Given the numerous layers that encompass an organisation’s culture, scholars have looked at the role of leadership in change management based on the idea that leaders are in the position of having a complete overview of the entire organisation. Stadler and Hinterhuber (2005) compare three case studies of change management in companies with a strong history and consequently a consolidated value system over time. The authors conclude that the success or failure of the implementation of change processes may depend on the features of the leader as an individual and of the type of leadership style.

More specifically, a collective leadership style entails approaches aimed at engaging employees throughout the change process and thus creating a team of followers adopting good actions and becoming change agents. While narratives of successful businesses and organisations traditionally depict charismatic and ambitious leaders, this study highlights how this kind of leader may actually be detrimental to the success of implementing change, as they may be more focused on personal gain than on the interest of their followers. What actually is more important is a culturally sensitive approach to change and to the entire system of effects which may be brought about.

As testified by the case of Siemens, many are the factors which can play a relevant role in ethical change processes. Consequently, one may ask if one is more important or effective than others. Undoubtedly, a complex interplay between these elements is at hand, scholars point to the adoption of a multi-system approach. Overarching the entire array of factors, we can find the role of the organisation’s leadership, facing the challenge of not only guiding the entire process but also fine-tuning the balance between all the elements in play.

**References**


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Introduction to survey on workplace behaviour
Project activity
As part of the project, we conducted a large-scale survey exploring ethical behaviours in the workplace. In particular, we were interested in what we called “Type M behaviours”. We defined these as workplace behaviours which, if known by the general public, would probably result in widespread condemnation. Pages throughout this report provide a snapshot of the findings from the survey, which involved 976 participants recruited online.

Survey participants
Q1. How old are you?

Q2. What is your gender?

Q3. What best describes the industry you are currently working in?

Q4. How senior are you in your current workplace?

Q5. How satisfied are you with your current workplace?

Q4 & Q5 (interaction). Satisfaction with current workplace by seniority
How do people justify inappropriate acts?

In the film LA Confidential, Sergeant Ed Exley wants to build his career as an honest cop. This soon implies testifying against a number of colleagues who are, indeed, guilty. Social ostracism ensues for him in the 1950s tight-knitted fictional police community lead by superiors such as Captain Dudley Smith, who believes that a detective should be willing to plant evidence on a suspect who is ‘known’ to be guilty for the greater good. When scandals occur, it is habitual to blame them on a few ‘bad apples’. However, research has found that only a minimal fraction of people would, given the chance to behave dishonestly for personal gain, make the most of it. That is, on a Sergeant Exley to Captain Smith scale, it is actually the ‘normal’ people in-between who commit the bulk of misbehaving. Pretty much all of them (us). But why?

According to rational economics, the decision of behaving dishonestly is exclusively utilitarian. That is, the result of a cost-benefit analysis with no room for right vs. wrong considerations. It follows that the amount of temptation experienced (and the corresponding odds of acting dishonestly) will be greater as the reward increases, and inversely related to the probability of being caught and the magnitude of the potential punishment. This simple equation lies in the core of rational crime theory (Becker, 1968). In a series of experiments, Nina Mazar and colleagues found, nonetheless, that said equation was failing to predict dishonesty (Mazar, Amir and Ariely, 2008). Moreover, the amount of money to be gained and the probability of being caught had little effect on cheating. On the contrary participants, far from being utility maximisers, seemed to be navigating a conflict of interest situation. On the one hand, they wanted to benefit as much as they could from the possibility of making some extra cash via over-reporting their performance. On the other, they cherished their self-perception of being honest and wanted to keep it. How to resolve this tension? In that study, participants opted for a compromise: they cheated only by as much as it would still allow them to preserve a positive self-concept.

Rationalisation
This cognitive loophole was facilitated by a process of rationalisation. Human beings are story-telling creatures. In patients who have had the structure that bridges both sides of the brain – the corpus callosum – sectioned, the verbal left hemisphere can no longer access the information exclusively presented to the right one. Regardless, research has found that it would still come up with a plausible ad hoc explanation for why the ‘other’ side of the body was behaving in a certain way (Gazzaniga, 1995). In a similar vein, the two-factor theory of emotion states that the emotions we feel are just labels we pick up from the immediate context to disambiguate non-specific physical arousal (Schachter and Singer, 1962). For example: ‘my heart is beating fast and I am talking to someone attractive, therefore I must be in love.’ Some psychologists have even suggested we barely know ourselves better than an external observer and that, just as an outsider would do, we distil our own life story from our actions (Bem, 1967). Not surprisingly, the participants in the Mazar, Amir and Ariely (2008) study were happy to create a narrative that would justify their own dishonest behaviour.

Some acts are, however, harder to rationalise than others. We will now briefly explore a number of psychological concepts that influence this cognitive process but it is by no means an exhaustive list.

Grey areas
Grey areas are also, not surprisingly, prone to misbehaviour. Gino, Norton and Ariely (2010) tested this idea in the lab via a simple task in which participants were presented with a

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1 More accurately the left hemisphere would have to come up with an explanation for why the left side of the body is behaving in a certain way. Each hemisphere controls the contralateral side of the body, that is, the left hemisphere controls (and therefore ‘knows’) what is going on the right side of the body and vice versa. This poses no problem when the corpus callosum is intact, but when communication between the hemispheres has been permanently interrupted, the left side of the brain can only ‘infer’ what might be the motives for the movement it is ‘observing’ in the left extremities.
square and had to indicate whether there were more dots above or below the line that divided it into two triangles by its main diagonal. This task was repeated a number of times with varying layouts. There was a catch though. Regardless of the accuracy of their response, every time a participant answered that there were more dots on the upper triangle they cashed up 5 US$ cents, whereas each ‘more-below’ answer was rewarded with only 0.5 US$ cents. The disequilibrium created an incentive to misreport. The researchers found that participants lied more when the amount of points above and below the diagonal was similar. Interestingly, individuals who scored high in creativity cheated more, particularly when this difference was small (Gino and Ariely, 2012). This suggests that the ambiguity of the situation allowed all participants to more easily generate explanations for their dishonest behaviour, but those who are highly creative could make the most of their superior ability to come up with alternative justifications. Interestingly, no correlation was observed between intelligence and dishonesty.

**Supervision**

All in all, a pattern takes shape: there are numerous contextual factors, such as observing counterfactuals (Shalvi, Dana, Handgraaf and De Dreu, 2011), as well as personal factors (e.g., creativity) that facilitate dishonest behaviour. Both factors provide the perpetrator with an easy way out from having to negatively affect their self-concept from being honest to less so. Conversely, there are also variables that reduce dishonesty, either by shrinking the extent to which questionable actions can be rationalised (e.g., moral reminders), or by eliminating the possibility of cheating altogether, such as being under supervision. This idea is on the base of Jeremy Bentham’s Panopticon (Bentham, 2008), conceptualised as a building (mostly a prison) that would allow a single watchman to observe all the inmates at any moment. This did not have to be necessarily the case, but the knowledge that they might be being watched would in theory motivate inmates to behave accordingly. The practicalities of this project were tricky and Bentham kept redesigning it his whole life. Furthermore, none of the buildings that have attempted to implement his vision got the logistics 100% right, but one can argue that the nowadays omnipresent CCTV is fulfilling a very similar function. In the same line, lab research on dishonesty usually requires that participants perform the experimental task in absolute privacy so their freedom to act in whichever way they deem appropriate is preserved.

**Social norms**

So far, these examples have been limited to ‘solitary’ cheating. Human beings, nonetheless, rarely behave dishonestly (or in any other way for that matter) in isolation. Via socialisation, people internalise the norms (Sherif, 1936) of the groups they are part of and calibrate what being honest means. A cross-societal experiment involving 23 countries found that intrinsic honesty (measured as resisting the temptation to over-claim for monetary profit from one’s performance in a simple die-rolling task) was stronger among participants from countries with lower levels of corruption, tax evasion, and fraudulent politics (Gächter and Schulz, 2016). This phenomenon can also happen at a lower scale, for instance, that of business culture. In a study within the banking industry, those bank employees that had their professional identity made salient over-reported for monetary profit the number of, this time, successful coin flips they had tossed (Cohn, Fehr and Maréchal, 2014).

Gino, Ayal and Ariely (2009) replicated these findings in a controlled lab environment, adding a clever twist in order to explore whether being exposed to the dishonest behaviour of someone with whom participants identify makes cheating more socially acceptable. People generally identify with members of what social identity theory calls the ‘ingroup’ (Tajfel and Turner, 1979). The experimenters had a bunch of students from Carnegie Mellon University sit a number-adding task. Participants were presented with 20 problems and would be paid according to the number they claimed to have solved. Moreover, they could over-report with impunity because no checks on the veracity of their claim were performed and evidence was destroyed by the students before they paid themselves the money they had ‘earned’. The dream setting for any utility maximiser. The interesting bit came when preposterously early into the session a confederate of the experimenters would stand up and loudly announce having solved all the problems, subsequently leaving the room with the maximum payoff. Gino et al. found that whether the cheat was wearing a Carnegie Mellon or a rival university t-shirt (i.e., was a member of the ‘outgroup’) made a big difference, with dishonest behaviour increasing very noticeably only in the first case. Participants, still, did not lie maximally. This finding rises two pressing issues: first, it shows how easily seeing their very own ‘rotten apple’ cheating encouraged others to do the same, and second, it is particularly worrisome if we take into consideration that one immoral act not only makes subsequent dishonesty more likely, but also influences morality in other domains (Ariely, 2012).

**Altruistic cheating**

A last and particularly perverse phenomenon worth mentioning, especially within an organisational setting, is altruistic cheating. In these cases, the person who is being dishonest might not be directly benefitting from it, but their behaviour has positive outcomes for others they care about or even the whole organisation (i.e., the greater good). The first minutes of LA Confidential are a case study of what altruism-gone-wrong looks like, particularly the character of Officer Bud White (whom Exley believes to be a ‘mindless thug’). After a drunk violent
brawl in the police station’s cells is filtered to the press, White refuses to testify against his colleagues, moments before Exley gives them away. As a result, White (‘a valuable officer’ according to Dudley Smith, who is crucially willing to say yes to the Captain’s dubious requests) is suspended and Exley is (officially) promoted to the role of Detective Lieutenant, (unofficially) securing despise of the department. The interesting element here is that White is far from being corrupt. Many of the things we see him do are terribly wrong, but it can paradoxically be argued that he holds what he understands as integrity to a higher esteem than ambitious, career-driven Exley, even at a cost to himself. In a similar vein, a study with flight attendants suggested that encouraging benevolent dishonesty among workers (e.g., to make boarding faster) can end up promoting generalised lying ‘for other reasons as well’ (Scott, 2003). In the lab, people participating in the same task as the Carnegie Mellon students above have been found to underreport their performance so a charity would receive a larger donation. That is, participants actually sacrificed their own interest for the greater good (Rixom and Mishra, 2014).

Two final reasons for optimism. First of all, and as Ariely (2012) notes in his book, ‘The (honest) truth about dishonesty’, people are cheating a lot less than what the economic model predicts. Second, all the above by no means grants people leeway to be dishonest. Every decision we make changes us. It is true that most of our choices are vulnerable to external influences, but this context-dependent element can be optimised in our favour, for instance by placing adequate nudges along the decision-making process (Thaler and Sunstein, 2008). Furthermore, in the same way everything can go downhill from a first (small) act of dishonesty, the disposition to choose correctly is nurtured every occasion we decide to be honest. And, with time, consistency can be achieved via committing oneself to certain practices. After all, the good life in the Aristotelian sense relies on this strive. Honesty certainly seemed to have become a habit for golfer Bobby Jones who not only once, but twice, called a penalty on himself when a ball nobody saw moved ever so slightly as he was getting ready for a shot. When praised about it, he now famously replied ‘you might as well praise me for not robbing banks’.

References
Experience of unethical behaviours

Survey findings

Q6. In the context of a workplace, a “Type M” behaviour is defined as a behaviour which, if known by the general public, will probably result in widespread condemnation. Do you feel like you would be able to identify Type M behaviours in your workplace?

- Yes: 69%
- No: 31%

Q7. Do you think you would be able to explain to someone else what a Type M behaviour is?

- Yes: 61%
- No: 39%

Q8. How often have you directly experienced any Type M behaviour at your current workplace?

- Always: 8%
- Most of the time: 42%
- About half the time: 8%
- Sometimes: 8%
- Never: 35%

Q9. Who is usually the perpetrator of such behaviour?

- Senior: 58
- Mid Level: 24
- Junior: 28

- Always: 100
- Most of the time: 90
- About half the time: 365
- Sometimes: 320
- Never: 361
Traditionally, the public and private are considered as separate spheres. Especially from a view of liberalism, the role of the state or government should be limited to a minimum and should not involve the private sphere. In this view, sexuality, family, and intimate personal relations are seen as matters which fall into the private sphere, while politics, where state and non-state institutions are involved represent matters of public dominion (Lacey, 1993). Based on this view, there is a complete separation between behaviours happening in private spheres, such as domestic violence and sexual abuse, and those which take place in public spheres. However, according to a feminist perspective this distinction between public and private spheres needs to be challenged (Ackelsberg, 2010). From a feminist point of view, this distinction of public and private excludes women from public life and treats unethical issues such as sexual harassment and domestic violence not as important as political (public) issues.

Thus, on the one hand, transparency can be positive in terms of unveiling the presence of cases of harassment, but on the other, “naming and shaming” can be detrimental to rehabilitation. Recent examples of allegations against sexual harassment in the workplace and the debate on the anonymity of child offenders, showed how blurred the boundaries between public and private may be, and how making things public can have numerous consequences in terms of ethics.

**Sexual harassment and discrimination at Uber**

On 19th February 2017, a former Uber engineer Susan Fowler revealed sexual harassment and discrimination at Uber on her blog (Fowler, 2017). She claimed that the management protected an offender who repeatedly sent sexist emails and messages, and threatened to fire her for raising this issue to HR. Her blog post went viral soon after its publication, and it fuelled the #DeleteUber movement. As a result, more than 200,000 users deleted their Uber account and the CEO Travis Kalanick also stepped down from his position (Statt, 2017).

**#MeToo Movement**

The recent #MeToo movement showed the positive impact of transparency and information diffusion. The movement started in 2006 by initial report by Tarana Burke, a social activist. The movement became viral in October 2017 after several accusations against Harvey Weinstein, a former film producer of international Hollywood fame, as testified by several successful films and internationally recognized awards. He was accused by 75 women involved in the movie industry of rape and other sexual crimes (Helmore, 2018). After several allegations against Weinstein, the Police in the UK and US started investigations on his case. Finally, on 5th June 2018, Harvey Weinstein appeared in New York supreme court and “denied committing any non-consensual sexual acts” (“Harvey Weinstein charged with rape following New York arrest,” 2018).

As the #MeToo movement went viral, it was not only limited to the allegations against Weinstein. Many other women, and also men, opened up and reported sexual crimes at work in different industries, such as finance, politics and government, music, sports, and medicine. The #MeToo hashtag appeared on Twitter in more than 85 countries (Strum, 2017), and provided further stimulus for related debates, as in the case of the #HowIWillChange hashtag.

Given the sensitivity of the topic, the #MeToo campaign has rapidly grown through social media. This shows how transparency and the diffusion of information regarding matters which are often kept private – sexuality, intimate personal relations – often for a sense of guilt, can help victims open up, thus contributing to a contrasting culture of shame and burden on sexual harassment. Nevertheless, public reports of sexual harassment do not guarantee that the harassment actually happened. In October 2017, a former model and actor Scott Brunton accused a famous actor, the star of Star Trek, George Takei of sexual assault in 1981 (Snow, 2018). Although George Takei denied it and Scott Brunton confessed that his allegations were false, George Takei’s public reputation was damaged and he lost his publishing partner and old fans as a result of this accusation.

**Debate on anonymity of crime offenders**

Another example of a heated debate on the distinction between the public and the private sphere is given by the naming or anonymising of crime offenders. At the end of 2016, the UK government commissioned a review which triggered a debate on lifelong anonymity for underage offenders (Press Association, 2016). As a matter of fact, the UK law allows for anonymity until the offenders reach the age of 18, then the media can lawfully release their names.
The main arguments in favour of anonymity stem from the benefits of information diffusion in the age of the Internet, where it is much easier to track down information on anyone’s personal history. It is argued to be a risk for the offenders’ rehabilitation process, undermining the possibility of finding employment and thus impeding the possibility of turning over a new leaf and moving on. Evidence shows that 69% of children sentenced to custody shall continue to reoffend within a year, raising rightful concerns on the risk of “naming and shaming” turning into a life sentence.

There is no shortage of counterarguments to the previous points. As scholars and practitioners have pointed out, a new law safeguarding lifetime anonymity would go against principles of open justice and the public’s right to be informed, especially in the case of potential risks. Clearly, the debate at hand is complex, as it requires a fine balancing between the rights of juvenile offenders, with a view of guaranteeing the best conditions towards rehabilitation, and the information rights of the general public. Proposals build on the introduction of flexibility in the law to disregard anonymity in cases of specific public interest, namely in relation to the seriousness of the crime, persistency and age of the offenders.

A utilitarian might argue that having transparency in the public sphere is important, as maximizing pleasure for the largest number of people is more important than anything else. However, does giving many people pleasure mean that it is always right? Should individuals and minorities keep their struggles private or reveal their personal information in public in order to make the public happy? More importantly, who benefits from the public information which is generally kept private? The above examples provide interesting food for thought on the delicacy of the debate on ethicality in relation to public and private spheres, especially given the variety of effects which can arise. As in the case of the #MeToo movement, transparency can be argued to be in the public interest, as it can generate positive ripple effects for victims of sexual harassment, given the sensitivity of the topic and the reluctance to speak up. However, this can give rise to extremely negative reputation effects, in the case of false allegations. The debate on the possibility of guaranteeing a lifelong anonymity to underage offenders introduces the need to balance the public’s right to be informed with the risks of undermining rehabilitation. Clearly, ethicality in the private and public sphere is one of the most complex issues, which requires careful discussion depending on the variety of long term effects on a wide range of stakeholders.

References


Types of unethical behaviour

Survey findings
Q10. Think about a specific Type M behaviour that you have witnessed or heard about in your workplace. Please give a very short (one or two sentences) description of what it was, and who the main actors were, in terms of seniority.

Key
- Harassment: General harassment, power abuse, bullying, inappropriate behaviour, demeaning attitude towards employees, threats, blame culture.
- Sexism: Sexist behaviour, sexist language, sexual harassment.
- Theft (time): Theft of money by not working and claiming hours.
- Verbal abuse: Inappropriate wording, anger management, offensive language, swearing.
- Theft (general): Theft of money, company resources and personal belongings.
- Unpleasant environment: Unpleasant dynamics, office gossip, disclosure of personal information.
- Not doing one’s role: Lack of respect towards customers, questionable decision-making.
- Discrimination: General discrimination, lack of equity, favouritism, nepotism.
- False information: Giving false information, fraud.
- Racism: Racist behaviour, racist language.
- Breaking rules: Breaking company rules or national laws, lack of health and safety compliance.
- Misuse of company resources: Breaking company property or using it inappropriately (includes internet use).
- Conflict of interest: General conflicts of interest, consenting sexual relationships.
- Physical abuse: Throwing objects.
What is the role of technology in ethical practices in organisations?

Briefing paper
Alina Gutoreva

The world has dramatically changed in the last few decades. In many respects, individuals and organisations seem to be lagging behind in understanding what is right and what is wrong about any of the current technological trends. Meaningful reflections only come after the flaws of adopted technology are too dramatic to ignore or when whistle-blowers raise concerns about organisational practises involving technology. Ethical (or unethical) behaviour can be defined as a behaviour that can be subjected to judgement on a spectrum of what is generally accepted as moral or ethical (Treviño, Weaver, & Reynolds, 2006).

The ability to reflect and identify a potential ethical or moral issue when adopting new technology is critical for understanding the development and growth of individual and social values. Ethical and moral values are necessarily changing and evolving with novel realisations. Technology is a tool, and as with any tool it is the user who decides how to utilise it. Technology cannot be ethical or unethical by itself, it is people who make it so. But what exactly is the role of technology in ethical practises in organisations? This fiercely advancing new world of high tech poses profound challenges for organisations of all kinds as it becomes more difficult to find the right balance between resilience and a potential source of growth and profit (Blowfield & Murray, 2014). This paper will introduce the challenges facing organisations when adopting technologies and will discuss some of the aspects of integrity and ethical practises in using technology in organisations.

Bias the bias – some lessons tech taught us about ethics

Some people define technology as an extensive reflection of humanity – it helps us glimpse at ourselves on a greater scale. And in some respects, it can be truly terrifying. Apparently, today’s humanity is quite sexist and racist. Asana, Alexa, Siri – what do they all have in common? Well, they all are ‘females’ – with a female name and a female voice. All of them are quick to respond to every wish and command. These examples of technology are the products of the ‘female secretary’ stereotype. Another example, Google photos tagged a photo of a black man and his friend in the ‘gorillas’ category (Barr, 2015). These biases in technology are not simply down to the biases of developers and programmers, who are indeed mostly white men (U.S. Equal Employment Opportunity Commission, 2016). These biases are something more. Rather, a reflection of current social norms and in-built human conceptions, prejudices and imbalances in the work place, which have to be tackled (Heilman, 2012).

These and many other lessons technology has taught us might be the key to understanding what can be done to improve the workplace and organisational environment for everyone, which in turn, will improve job satisfaction and overall productivity. Furthermore, we will need to teach the adopted technology to be better than us in understanding what is ethical and what is not, and even guide us to make more appropriate decisions in ethically or morally challenging situations.

Integrity, transparency and accountability – utopia or resolution?

Integrity, transparency and accountability are the golden standards of public administration (Burke, Tobler, Baddeley, & Schultz, 2010). Even though the private sector is not public by definition, it seems to have become subject to the same standards due to the increasing reach of organisations into societal affairs by virtue of technology. The tremendous part of today’s technology is its essentially social part. The development, implementation and realisation of any technological advances are all social processes, which are especially pronounced in today’s digital age. It brings many advantages, such as understanding consumers’ needs and desires via prompt feedback. However, there might be some potential pitfalls. One of them is that social media has an everlasting audience reach. Tweets, Facebook posts and YouTube videos can potentially have a multimillion person audience, meaning that any flaw or virtue can be brought to everyone’s attention. This brings several questions: how to predict public reaction on a particular issue, what must be kept private to protect organisation, and what must be open to the public eye to project trustworthiness? At the moment there is no definite answer but it is clear that organisations simply cannot afford to be hypocritical – transparency is getting its way from the outside. What organisations portray as their values and standards must be genuine or at least aspiring to be because now everyone seems to be watching and comparing. The website, Glass Door (https://www.glassdoor.
co.uk/) is an example of this: employees provide feedback about the job conditions and other insights about the organisations they work at or used to work for. The realisation that ‘everyone is watching’ might be numbing at first, but as far as the definition of ethical behaviour goes, it is a key step to more genuine and humane organisations.

Collusions and fraud are some of the major problems in corporate and governance sectors. One type of technology that can counteract these is a new way of interacting and transacting via blockchain. The technology behind blockchain is quite complex but the concept itself is not. Blockchain as it is now can be compared to the internet in its infancy. The most realised role of blockchain – cryptocurrency – is only a small part of what this technology can offer. The distributed database that is behind blockchain may facilitate collaboration between organisations and improve transparency. It will be possible to make any type of agreement or task transparent, which is going to be recorded and stored unaltered in a shared accessible database. It is purely peer to peer – organisation to individuals, machines, or algorithms and vice versa. It will not require all the bureaucracy prone to fraudulent actions to settle transactions. It is indeed as promising as it sounds, however, quick changes on a global scale are unlikely. Nevertheless, organisations should look forward to having blockchain practises in place by adopting localised applications within organisations for a better record transaction that will bring immediate benefits (Iansiti & Lakhani, 2017).

**Future organisations must be humane or…there is no future**

We are now experiencing the Fourth Industrial Revolution, where the boundary between uniquely human skills and what technology can offer are disappearing (Schwab, 2016). For organisations, automation can be viewed as a friend and foe at the same time. Some estimations predict that about half of all jobs will be affected by automation in the next decade or so. Any job which is routine-based will be automated, and possibly very soon (Frey & Osborne, 2013). Of course, the Fourth Industrial Revolution will disrupt some categories of jobs, but it will necessarily produce new ones. As a consequence, new approaches for how to value and manage human potential in both the private and public sectors must be realised (Leopold, Ratcheva, & Zahidi, 2016). Not only will prospects of potential joblessness occupy people’s mind, but also a deeper realisation that any of us can be replaced by a more efficient machine in the next decade.

As technological advances ascend, it is becoming less clear what people can do that machines cannot and will not be able to in the future. Some suggested that creativity and innovation is something that people are uniquely capable of. And then, we have been challenged by an algorithm-composer (Kaleagasi, 2017) and an algorithm-screen writer (Goode, 2018). So, what exactly is unique about humans in the age of advancing machines? The answer is being humane.

Technology is impressively good at what it does, but it currently learns from available data. People, on the other hand, generate this data and can flexibly redefine and ascend the end product generated by any technological tool to another level when changes arise, whereas tech itself cannot.

Evaluation, reflection, empathy, compassion, collaboration and trust - the ‘quirks’ of irrationality and inefficiency as perceived by any algorithm, will be the most precious asset in the future (Seidman, 2016). The organisations which put people first and have ethical, ‘humane’, practises in their approaches will likely stay relevant in the future. People and technology can go hand in hand, but people have to look after not only the technology they develop, adopt and use, but other people as well.

Clearly, adopting new technology is a hard task in itself and ethics sometimes can stand quite far down in an organisation’s list of priorities. But as it has been discussed here, this is going to change in the future and we can feel some of the patterns of these changes already. As a way to move forward, when adopting new technology, organisations must ask themselves several questions that would save them from a headache in the future: ‘who are the beneficiaries and who might be disadvantaged by the technology?’, ‘what if others knew how this technology is used?’, ‘what will the potential outcomes of the current actions be in the future?’

**References**


Leopold, C. (2014). The categories of jobs, but it will necessarily be automated, and possibly very soon (Frey & Osborne, 2013). Of course, the Fourth Industrial Revolution will disrupt some categories of jobs, but it will necessarily produce new ones. As a consequence, new approaches for how to value and manage human potential in both the private and public sectors must be realised (Leopold, Ratcheva, & Zahidi, 2016). Not only will prospects of potential joblessness occupy people’s mind, but also a deeper realisation that any of us can be replaced by a more efficient machine in the next decade.

**References**


Surprise and severity of unethical behaviours

Survey findings
Q11. How surprising do you find this behaviour?

Q12. How would you rate the level of severity of this specific Type M behaviour?
Q13. How do you think your colleagues would rate the severity of this behaviour?
Q14. How do you think the general public would rate the severity of this behaviour?

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Are ethicality and profitability mutually exclusive? Is it really possible for a firm to achieve both ethicality and profitability at the same time? The conventional view states that business ethics is an oxymoron – ethical and business behaviours must be conflicting as economic profitability is more important than ethicality in business (Duska, 2000). Although some will argue that creating profit can make the world a better place, recent incidents do not seem to support this idea.

In March 2018, Amazon became the second most valuable U.S. company after Apple, as the value of their stock rose. Moreover, in May 2018, Forbes listed Jeff Bezos, the CEO of Amazon, as the wealthiest in the world (“Meet the richest personal in every state”, 2018). As a matter of fact, Amazon contributed to society by creating more than 200,000 jobs in the US (“Cities that lure Amazon with incentives may be getting a ‘bad bargain’”, 2018), and over 27,000 jobs in the UK (“Amazon committed to post-Brexit Britain and plans 2,500 new jobs”, 2018). However, unsafe working conditions and poor treatment of the workers in their UK warehouses have been constantly reported throughout the years. In November 2016, it was revealed that Amazon delivery drivers work illegal hours to deliver all the assigned parcels and receive less than the minimum wage of £7.20 (“Amazon drivers work illegal hours”, 2016). Moreover, Amazon’s constant surveillance on warehouse workers’ location and their movements by means of a wristband (“Employers are monitoring computers, toilet breaks – even emotions”, 2018) have been criticized for the pressure created, as workers do not take a break even to go to the toilet to meet performance targets (Amazon accused of treating UK warehouse staff like robots”, 2018).

Not only Amazon, but many other financially successful corporations such as KPMG, United Airlines, and Barclays, have shown us that profitability has not always resulted in ethicality, and that incorporating ethics into management is challenging. Therefore, one important question which arises is the following. Why is it hard for big corporations to achieve a balance between ethicality and profitability? The most well-known reason why owners and/or managers make unethical
decisions, especially when they face fierce competition, is because they believe that their unethical decisions and practices pay off, in particular in a competitive market (Bhattacharjee & Dana, 2017). Trevino and Brown (2004) identify a further five common myths about implementing business ethics: 1) it’s easy to be ethical but ethical decision-making is a complex, multi stage process; 2) unethical behaviour in business is simply the result of “bad apples” but most people are followers when it comes to ethics; 3) ethics can be managed through formal ethics codes and programmes but formal systems do not guarantee effective management; 4) ethical leadership is mostly about leader integrity but developing a reputation for ethical leadership requires more than strong personal character; and 5) people are less ethical than they used to be but ethical behaviour is nothing new, although there may be more opportunities to be so.

An underlying assumption here is that corporations are established mainly for economic purposes that include maximizing profit rather than providing social goods. Nevertheless, there are many successful cases achieving both ethicality and profitability in business, by drawing on the concept of “Blended Value Proposition”.

Blended value proposition: economic and social values are non-separable

In 2000, Jed Emerson introduced the term “Blended Value Proposition” using the concept of a “double bottom line” and a “triple bottom line”. A double bottom line emphasizes that a corporation must pursue and deliver not only economic value, but also social value. In the case of “triple bottom line”, environmental value is added to the “double bottom line”. Unlike a traditional view which considered economic and social values as separable, the blended value proposition provides a framework that enables an organisation simultaneously to create economic, social, and environmental values (Emerson, 2003).

Indeed, there are many different forms of business which look for a double/triple bottom line across profit and non-profit sectors, such as corporate philanthropy, social investment, social enterprise, and non-governmental organisations.

Among others, social enterprises are one example of entities which aim to achieve double/triple objectives through their business activities. Given that social enterprises are a recent organisational form, there is no international consensus on the definition of social enterprise. However, many scholars and practitioners agree that a social enterprise is a hybrid organisation which pursues dual objectives at the same time – financial and social objectives. These blended objectives can be achieved through various activities depending on an organisation’s characteristics and business model, as Alter (2004: 16) mentioned: “social objectives aimed at mission accomplishment (social value creation) vary widely depending on the organisation’s mission and sector and financial objectives focused on financial sustainability (economic value creation) vary according to funding needs and business model.”

Social Enterprise: The Big Issue

The Big Issue, founded in London in 1991, is one of the most successful social enterprises in the UK. Having started as a magazine, now the Big Issue Group runs four organisations which differ according to their main objectives and activities: 1) Big Issue (magazine); 2) Big Issue Invest; 3) Big Issue Foundation; and 4) Big Issue Shop. The Big Issue aims to “dismantle poverty through creating opportunity”. It creates job opportunities for homeless and long-term unemployed people to “earn a legitimate income” by selling the magazine. The vendors buy copies for £1.25 from the Big Issue and sell them for £2.50. The Big Issue makes profits by selling the magazine to the vendors, and the vendors as micro-entrepreneurs develop sales and financial skills which can help them in their search for employment. Moreover, The Big Issue provides various forms of support for the vendors, including temporary or permanent housing, healthcare, education and training, financial counselling, and the possibility of connecting with family.

This social enterprise model has been very successful at national and international levels. According to The Big Issue magazine, over 92,000 vendors earned £115 million during last 27 years. Currently, there are around 15,000 vendors across the country, and they earned £5.5 million last year. As a result, in 2017, over 900 positive outcomes for vendors were achieved, including rehousing, accessing health and addiction treatment services, education, employment, and financial support, and personal sales goals (Big Issue, 2017). As this business model is easily replicable to other countries, the magazine is also produced in eight more countries – Australia, Ireland, South Korea, South Africa, Japan, Namibia, Kenya, Malawi and Taiwan.

While the Big Issue is an example of a successful social enterprise which pursues a double bottom line, a US private certification – “B-corporation” provides social enterprise standards, focusing more on how an organisation can integrate ethical standards of transparency, accountability, and performance into management.

B-corporation: Ben and Jerry’s

A B-corporation is a private certification awarded to for-profit or non-profit organisations which meet the minimum standards of four impact areas – 1) Governance; 2) Workers; 3) Community; and 4) Environment. A B-corporation encourages companies “not just to be the best in the world, but to be the best for the world”, as the certification assessment tool provides a clear guideline on how social and environment objectives can be embedded in the management and business activities. This movement has been very successful across...
the world – in 2018, there are 2,544 certified B-corporations in more than 50 countries. One of the most successful examples of B-corporations is a global ice cream company, Ben and Jerry’s. According to the mission statement of Ben and Jerry’s, they have product, economic, and social missions. Their product and economic missions aim at achieving sustainable financial growth by producing and selling high-quality ice cream, implying that Ben and Jerry’s pursues economic profitability. At the same time, they pursue positive ethical and social values by using locally sourced dairy, cage free eggs, and fair-trade products as well as by providing various supplemental benefits for the welfare of workers and monitoring the pollution levels of their factories.

Conclusion
To conclude, from the examples of social enterprise and B-corporation, it is clear that ethicality and profitability in business can be achieved at the same time and that they are not mutually exclusive. Unlike conventional corporations, social enterprises and B-corps incorporate ethical and social standards into their governance and economic activities in order to achieve their social objectives. This form of governance motivates their employees as they can receive better health, social and educational supports, as well as opportunities to be a shareholder of their company. Moreover, an ethical company can acquire a positive public image which can also motivate their employees. Nevertheless, some would argue that providing greater financial benefits can motivate employees more. However, previous research also shows that people tend to perceive a firm’s image negatively even when a profit-seeking firm creates positive social values besides from economic values (Bhattacharjee et al., 2017).

References

Reporting unethical behaviours

Survey findings

Q15. Can you understand the reasons why the perpetrator has behaved in such a way? What motivated him/her?

- Yes: 49%
- No: 51%

Q16. Generally, does anyone report Type M behaviour at your workplace?

- Yes: 29%
- No: 71%

Q17. Why do people tend to report Type M behaviour at your workplace?

- Immoral: 76%
- For future action: 37%
- Organizational culture: 30%
- Distressing: 30%
- Personal benefit: 23%
- Irrelevant: 22%
- Bad internal relationships: 7%
- Unsure: 5%

Q18. Why do people not tend to report Type M behaviour at your workplace?

- Fear of consequences: 168%
- Lack of support: 138%
- Too much effort: 90%
- Harmless: 34%
- Lack of trust: 10%
- Embarrassing: 2%
- Irrelevant: 1%
What responsibilities do businesses have towards human rights?

Briefing paper
Dr Rita Mota

The topic of business and human rights (BHR) inevitably triggers strong emotions amongst all those affected. It also often triggers a very divisive discourse of the type ‘us versus them’. The first is understandable, sometimes painful, sometimes desirable; the latter is counterproductive, to say the least. The debate about business responsibility for human rights (HR) is not new, either at the national or international level, but it has, in recent years, gained new momentum. Law-makers, politicians, international organisations, business leaders and associations, academics, non-governmental organisations (NGOs), civil society organisations (CSOs), and the media, are all interested in the matter at unprecedented levels. On the other hand, this issue raises ethical, legal, reputational, financial and other concerns which are often difficult to reconcile.

When we talk about BHR, we are not referring to charitable contributions to society, but to the human rights responsibilities of business. There are two reasons why this is important, and also controversial. First, it has been widely demonstrated that any company, in any industry, may (positively or adversely) affect the human rights of individuals, and that this becomes more problematic in the context of globalisation and growing power of multinational enterprises. Second, international human rights law has traditionally been understood as applying to States alone (in spite of a reference in the Universal Declaration of Human Rights to ‘every individual and every organ of society’), which means that business has been able to operate with virtual immunity in many circumstances, mostly because some States are often unable (or unwilling) to control corporate behaviour – either because business wields significant power, or because the State’s regulatory powers are restricted by international treaties, such as international investment agreements (McCorquodale & Simons, 2017).

Disregard of human rights obligations
There is abundant evidence of business involvement in, or direct connection with, human rights abuses all over the world. Several companies have faced legal action for this reason, while many more have suffered serious reputational and financial losses in connection with human rights-related scandals. While some of these companies have been able to positively move away from the practices that gave rise to such scandals, many others continue to operate with blatant disregard for human rights: across continents, there are reports of forced and child labour, discrimination, sexual violence, displacement of local communities, threats to health and the environment, disregard for indigenous peoples, only to name a few. And these reports have almost invariably given rise to an extremely divisive discourse.

Those who oppose corporate human rights responsibility (at least in hard legal terms) do so on several grounds, ranging from the argument of a ‘moral division of labour’ (businesses create wealth, States protect human rights), to the idea that BHR will result in the privatisation of international human rights law (see UN Treaty Process on Business and Human Rights Response of the international business community, 2017). Some businesses accuse NGOs and CSOs of wanting to harm business interests, more so than wanting to promote compliance with human rights law. Some corporate leaders still dismiss human rights concerns as ‘not my problem’, or ‘something that will eventually go away’. In extreme cases, companies are involved in violent attacks to human rights defenders, which often result in injury, loss of life, and increasing levels of anger and frustration.

Challenges for business
On the other hand, a part of the pro-BHR community sees business as inherently evil, focused on profits alone, and struggles (or refuses) to fully comprehend the challenge that human rights represent for businesses. They often ignore the fact that many companies operate in countries with very weak governance (sometimes, with legislation that clashes with international human rights law), that they have complex supply chains which are incredibly hard to monitor, and that they need to deal with the lack of transparency of their business partners. Many accuse companies of being misleading in their human rights reports and choose to see most business actions as mere publicity stunts.

Interestingly, NGOs and businesses accuse each other of the same sins: having a hidden agenda, being unaccountable, being unwilling to change. A climate of distrust, rather than collaboration, is found in most instances. Several business actors are moving beyond this divide, and choosing to collaborate with
Leading integrity
Towards an organisational ethics

each other, and with other stakeholders, in order to advance human rights. IKEA, the Coca-Cola Company, Unilever, HP Inc., Hewlett Packard Enterprise, Marks and Spencer, and Walmart, are collaborating with Verité, the International Organisation for Migration, the Interfaith Center on Corporate Responsibility and the Institute for Human Rights and Business to tackle modern slavery in their supply chains (see “The Leadership Group for Responsible Recruitment”, 2008); the LEGO Foundation partnered with the UNHCR to provide education and improve the wellbeing of refugees and displaced children (Ahlberger, 2012); IKEA has been working in rural communities to both tackle child labour and support women through improved access to credit and to work opportunities (see “Case Example: IKEA’s Commitment to Children”). Nevertheless, the future requires significantly more from business.

Areas of corporate social responsibility

It is much easier to find evidence of corporate human rights abuses than of successful engagement. Human rights have been generally not as much of a concern to business than other areas of corporate social responsibility, such as the environment. Certain rights are more prevalent in the discussion than others – the cultural and land rights of indigenous peoples, for example, remain an underdeveloped area across the board. There is still widespread discrimination and violence against women and LGBT+ people. In spite of all the media coverage, legal actions, and efforts from companies, the extractive industry remains associated with serious human rights abuses. Privacy, security, mass manipulation of public opinion and curtailment of free speech are still not sufficiently addressed by the technology industry. Banks are still funding activities that have severe human rights impacts. Companies across all sectors still lack effective due diligence and grievance mechanisms, and a significant share of human rights reports are little more than superficial. A large part of human rights abuses go unpunished and a large part of victims never obtain any kind of reparation.

The only way to meaningfully address BHR is through awareness, transparency, collaboration and joint effort. The divisive discourse needs to turn into a dynamic learning process, where each party involved is ready to listen to others and change their own behaviours. Unlike traditional CSR initiatives, human rights are not optional, and they are not a matter of being generous to the community. They require work, dedication, boldness and leadership. It is urgent to build on what has already been done, learn from those rare stories of success, and engage with HR. Not to tick boxes, but because it is the right thing to do – and because that is a legacy truly worth leaving behind.

References


Organisational change

Survey findings
Q19. Has there been any changes in the company as a result of such behaviour being reported?

- yes: 23%
- no: 77%

Q20. Has this changed your perception of your workplace?

- yes positively: 13%
- yes negatively: 42%
- no: 45%

Q21. Have you directly experienced a satisfactory resolution of a reported Type M behaviour at your workplace?

- definitely yes: 9%
- probably yes: 22%
- probably not: 35%
- definitely not: 34%
How are hedge fund activists changing the landscape of corporate governance?

Briefing paper
Dr Ellen Y. He

The landscape of corporate governance has changed to a new era of shareholder activism, and one successful driving force behind it is the activist hedge fund, which is rarely regarded as a traditional gatekeeper for shareholders. Many modern corporations are established on the separation of ownership and control. When the shareholders actively interfere with the running of the business, we call the phenomenon “shareholder activism”. In recent years, many such shareholders are renowned hedge funds, and their huge success has earned the phenomenon a name – “hedge fund activism”. In this paper, I present the evolution of shareholder activism, the norm shifting in business ethics of the purpose of a firm, the conflicting goals of long term and short term investors, the potential coordination channels among these investors, as well as how the concept of corporate governance has evolved to accommodate the emphasis on business ethics.

Formation of conglomerates
During the 1950s, capital started to cluster and we see conglomerates such as IT&T, LTV, Teledyne, and Litton Being established. During this empire building period, managers sought to increase their stake in as many diverse enterprises as possible. Business ethics was rarely considered as part of the goal of a corporation. During the 1980s and 1990s, a major wave of hostile takeover and mergers occurred. Many of these are regarded as short-term profit driven and were led by large banks and investment houses. During the 20th century, the purpose of a corporation was to integrate various resources and work towards a profitable business output. The capital market provided the channel through which resources were converted as capital and efficiently allocated to facilitate the realization of different business opportunities. Families controlled almost every aspect of a daily life. The concept of business ethics was adopted as a marketing tool to differentiate one business from another rather than serve much real purpose.

However, the very reason for business diversification for establishing conglomerates is, in fact, false. In a well-functioning capital market, any finance graduate will now be able to tell you that investors can make their own diversification strategies by combining different stocks. Another wave of breaking-up followed during the last two decades of the 20th Century. Merging enterprises is not a simple addition of two units – at a higher level, there is cultural difference between organisations, and at a lower level, business practices as well as system integration are complex. The corporation, within two decades, witnessed the merging and splitting up, two conflicting moves completely opposite to each other. However, surprisingly, both were demanded by the capital market and fundamentally by the same groups of shareholders, and it is difficult to tell whether there has been a universal goal of shareholders. Throughout this period, one thing becomes clear: institutions became more and more aware of their powers and their difference in demands, and hence their definition of the purpose of a firm. The new concept of the stakeholder-oriented view of corporate governance emerged.

New era for finance sector
In recent years, the stock market has grown substantially, yet we witnessed the technology bubble in the 2000s and we are still living in the shadow of the recent financial crisis in 2008. There seems to have been a lack of “good practice” or “correction” and during the market downfall the credit line was tightened, businesses were squeezed, jobs were lost, and many lessons failed to be learnt. We seemed to struggle to find an effective way to govern the stream of capital and to coordinate the interested parties surrounding the corporation: shareholders, creditors, management, employees, customers, suppliers, government, and the general public. In the meantime, our environment has been suffering from past overdevelopment, and technology has brought human rights issues from the remotest corners of the world to the center of debate. It seems that society is embracing an era with wider problems, hence wider goals, than ever, and so also are the interested parties of a corporation. One goal does not fit all anymore. In this new era, there are big shareholders who, by their origin, hold different goals. The hedge funds which the minority super rich invested in are known to have a strong incentive to increase value and growth in a short span of time. Pension funds, funded by the majority of the working population, have more responsibility to ensure long term sustainable and safe growth. Both groups hold a large fraction of the whole capital market. Their investment strategies differ and so do their governance preferences. After the errands of governance preferences swings in
the past few decades, both groups are actively reaching out to corporations to influence all aspects of their activities, from their day-to-day business to major business reconstruction.

**Hedge fund activist strategies**

The first campaigners of the hedge fund activists were the gekk financial calculators. Smart, and good with numbers, they went through corporations’ financial statements and worked out the numbers. Some had too much debt and some needed to leverage up - in many cases, cash-rich but poor business opportunity “cash cows” did not pay enough. The examples would be Home Depot, Target, and even Apple (Brav et al., 2008). Investors generally welcomed them as investment paid off with increased dividends or higher share prices due to share repurchase programmes. However, different voices come from firms. Executives are angry as activists squeeze out more of their cash reserves, leaving them more vulnerable in a high leveraged economy. The ethics of compensating investors versus controlling financial risks is a balancing act. Nonetheless, these activists do not change the operation of the firm but do influence the finance policies.

After their huge success, largely backed up by other shareholders who also demand for returns, then, the competition, among hedge fund activists, becomes severe. When the good cash cows are chosen and spent, the strategy to simply ask firms to pay out cash becomes unprofitable and can be disastrous to companies with large expansion opportunities who are in need of cash. Activists, themselves, seek to differ. More experienced activists, mainly the old-day corporate raiders such as Carl Icahn, have learned how to shake up corporations via spinoffs or reconstruction. We see the buyout of Dell and Barnes & Noble and shake up of Wendy’s and Yahoo. The targeted corporations are generally large and are in trouble. A shake up can potentially unlock the value, but it also may destroy their operations. New units are separated out, management needs to adopt the change, and so do the people working in these organisations. Production may be on hold, and new production may be needed. The activists can do the paper work, however, really running and operating the business may be well beyond their reach. Hence, we still cannot put a good or bad label on the many outcomes of these campaigns. Market reaction is also mixed, and in the industry, there is a lot of debate on the consequences of hedge fund campaigns. Survey evidence by McCahery and co-authors (2016) find that activists, to company management, are most unpopular among other investors to company management. They are seen as short-term oriented, boosting stock price at the expense of future growth.

However, the activist hedge funds do not label themselves as short term investors. More interestingly, long term-oriented investors, such as pension funds, do not tend to succeed in many of their public campaigns. Large fund management companies holding big blocks in firms in the same industry even have the incentive to prevent competition within the industry, which may lead to fewer innovations (Azar, Schmalz, Tecu, 2018). The reason for the failures of long term-oriented campaigners is the lack of incentives. Pension fund managers or mutual fund managers do not receive performance bonuses, whereas hedge fund managers fuel their super jet or yacht by the high-performance fees they charge.

**ESG preferences of institutional investors**

In ongoing research on institutional investors’ Environmental, Social and Governance (ESG) preferences, my co-authors and I find that many ESG proposals are initiated by pension funds or other social funds. But the pass rate is low, and over the years, the support rate has increased but not substantially. In contrast, shareholder service companies that give recommendations to shareholders voting at annual meetings are significantly increasing their support on ESG issues, especially those initiated by the large asset management companies such as pension funds. In the 2017 voting season, both Vanguard and Blackrock finally stated that they will be reviewing ESG proposals more closely than before to tackle long term climate and societal issues. This is a big move, but interestingly, it also unintentionally reflects the widely existing short-termism view of the large investment houses – they have very rarely paid attention to such proposals in the past. We also confirm this in our data – a large proportion of institutions blindly abstain or vote against proposals that may have long term benefits, albeit with short term uncertainty.

**Social connections**

The different beliefs held by different investors seem to cause a deadlock in the boardroom. Luckily, institutions are still run by human beings and we are all relational animals. Even hedge fund managers have friends, and their friends are widely distributed in the investment world. A person’s friend is likely to have a clear picture of the person or to hear from them on a regular basis. In my research (He and Li, 2016) conducted with Dr. Tao Li, assistant professor at Florida University, we find that social relationships play an important role in reconciling the interests of different institutions. Mutual funds and large hedge funds whose top percentile have had past social connections with those of the lead activist are more likely to purchase target stock and to do so more often when the quality of the activist is better. By past social connections, we mean they have attended the same university at the same time, worked in a third institution at the same time, or belonged to the same social club or engaged in other similar functions at the same time. Moreover, we show that their purchase is for the purpose of supporting activists’ campaigns, and that
these campaigns have indeed better outcomes for the companies. The connected funds also share their part of the cake since they have better quality information from their connected activist’s friend.

These contrasting views of the outcome of investments also lead to the emergence of a more profound solution: the changing concept of the purpose of a corporation and corporate governance (Friedman and Miles, 2006). Corporations perhaps should not be defined to merely maximize profits, rather, to sustain profitable business outputs. Governance perhaps should not be defined to ensure shareholder profit maximization, rather coordination among all related parties and their rights. Indeed, in many business courses we teach, we adopt this concept change and we see the rise of social enterprise, the adoption of ESG reviews of investment houses, and various related initiatives such as the Principles for Responsible Investment Initiative (PRI), as an encouraging sign that, perhaps, business ethics is ultimately being taken into consideration along with monetary returns.

References
Components of unethical behaviour

Survey findings
Q22. What characteristics would you like to see in the organisation you work at?

Q23. Please rate how important you think each of the following components of a behaviour are, in making it a Type M behaviour.
What are the different corporate response strategies following an ethical scandal?

Briefing paper
Sichao Ge

With a news outlet in your pocket, success and scandals are communicated much more quickly. This means that, in the case of an ethical scandal, the firm needs to answer to the global audience, and each post-scandal action they take faces criticism from not only all the stakeholders but also the general public. During the past decades, many corporate scandals, such as unethical business behaviours, sexual harassment allegations, data breaches etc., have been exposed, which resulted in extensive litigation, heavy fines, decrease in sales and other negative outcomes. Due to the publicity of the increasing ethical scandals at firms, both the media and academics are paying more attention to organisational wrongdoing. Much research has been conducted to explore corporate response strategies following an ethical scandal.

The main goal of post-scandal actions is to rebuild reputation, as reputational assets suffer from direct consequences of an ethical scandal. If you type ‘business reputation’ into Google, hundreds of articles show up telling you how important reputation is to business survival. So, what is reputation? Sims (2009) defines reputation as the beliefs people hold about an organisation based on their experiences, knowledge obtained through word of mouth or mass media, and overall relationship with it. Reputation is important, since it is commonly seen as an intangible asset because it represents customers’ confidence and loyalty to the business. Approximately two thirds of a company’s market value is credited to its reputation (Weber Shandwick Safeguarding Reputation™, 2006).

Situational Crisis Communication Theory (SCCT) proposed by Coombs (2007), is one of the most popular evidence-based frameworks for understanding how to protect reputational assets. SCCT states that stakeholder attribution is the key to reputational damage. In the event of a crisis, such as an ethical scandal, the stakeholders search for the cause of it, if the organisation is deemed responsible, it would provoke anger amongst stakeholders. SCCT proposes three types of responses to take responsibility for the scandal: denial, diminish and rebuild.

Deny strategies
Deny strategies aim at removing connection between the organisation and the scandal by denying any involvement or blaming someone outside the organisation. The organisation might argue that the scandal is nothing but a rumour, reputational damage can therefore be avoided, if the stakeholders accept the denial. This strategy was recently used by Cambridge Analytica following the data scandal. The firm was accused of influencing the US presidential campaign election and the Brexit referendum by collecting personally identifiable information of Facebook users. Cambridge Analytica issued a statement strongly denying the claims made against them (Salinas, 2018). This strategy did not work as the public was not convinced by their denial. To worsen the situation, the former head of the firm later admitted to some of the allegations, contradicting the statement issued (Reuters, 2018). Similarly, when the scandal broke out that a blooded passenger was forcibly removed from an over-booked flight in April 2017 by United Airline, the airline used the deny strategy. The CEO responded by blaming the involved passenger for being disruptive and aggressive (Rousseau and Babwin, 2018). This strategy was also ineffective, as it triggered various negative reactions amongst their stakeholders and the press, which resulted in a $1.4 billion drop in their stock (Shen, 2018). Both the aforementioned firms failed to reduce their reputational damage by using deny strategies. This is due to the fact that the shareholders already deemed them responsible, their denial would never be accepted as solid evidences were presented.

In contrast, the denial strategy was also used by Uber in 2013, and this time it was effective at reducing reputational damage. A passenger tweeted that she was being choked by her Uber driver. Uber’s CEO defended the driver and denied the existence of the incident by blaming the media for thinking that Uber is responsible for fake incidents (Moss, 2013). The denial strategy was successful for Uber as the stakeholders accepted their denial. This was possibly due to the lack of evidence against them and minor damage it has done to their stakeholders. Reputational damages were avoided as Uber was not deemed responsible for the scandal.

Diminish strategies
The diminish strategies aim at lessening the negative view of the scandal. The organisation might try to minimize their responsibility by denying intent to do harm, or by arguing that the scandal is not as serious as it seems. Solid evidence is required to employ...
diminish strategies. When the iPhone 6 was released, it was reported that the phones would bend when carried in users’ pockets, known as ‘bendgate’. Apple responded to the scandal by stating they received less than 10 complaints about bent devices, insisting that it is extremely rare that the damage could occur due to regular use (Steele, 2018). Apple successfully lessening the negative view of ‘bendgate’, and the scandal was short-lived. However, this strategy did not work for them when another scandal broke out accusing Apple of slowing down iPhones on purpose. The company responded to the scandal by saying that they only did it to protect iPhones and called the scandal a ‘misunderstanding’. The response was not as effective as their response to ‘bendgate’. The company is now facing a wave of class action lawsuits with stakeholders demanding compensation (Sky News, 2018).

Rebuild strategies
The rebuild strategies are the most commonly used strategies following an ethical scandal, which involve apologising and compensating. Rebuild strategies are the most effective way of generating new reputational assets in case of severe reputational damage (Coombs, 2017). Several years ago, Volkswagen was accused of manipulating emissions tests by using illegal software. Immediately after the scandal outbreak, Volkswagen’s CEO issued an apology statement admitting the misconduct, and later resigned from his position as CEO. Two months later, the firm issued an ad campaign apologising and offering customers compensation. A $4.3bn fine was also confirmed to resolve the issue with the US regulator (Reuters, 2018). In this case, severe reputational threat occurred, as the organisation was deemed to be fully responsible. The punishments, such as resignation of the CEO and the heavy fine, were unavoidable as the scandal not only brought severe damage, it involved serious violation of law. Volkswagen is not the only company that had the CEO stepping down and heavy penalties following an ethical scandal. In cases where firms take full responsibility of a severe scandal, people in leadership positions had to resign and some of them were sentenced. Volkswagen’s response strategy was extremely effective, although the firm suffered from unavoidable reputational and financial damage, but the damage was minimised. Volkswagen managed to recover from the scandal with share prices and sales are going back up (Bryant, 2018).

To conclude, organisations may choose their scandal response strategy according to how the stakeholders attribute the cause of the scandal, how severe the scandal is and the availability of solid evidence against or supporting them. Punishments may not be required if the scandal does not cause serious reputational damage, however in the case of violating the law, the firm would be punished regardless of the opinions of stakeholders.

References
Sims, R. (2009). Toward a better understanding of organisational efforts to rebuild reputation following an ethical scandal. Journal of Business Ethics, 90(4), 453
Future scandals

Survey findings
Q24. Finally, in the wake of all the ethical scandals which have been in the news recently, what would you predict to be the next big ethical scandal that we will hear about? Please ensure that you do not identify any specific company or individual directly. We are only interested in general prediction.
Can integrity be measured within organisations?

Briefing paper
Miranda Lewis

Until some decades ago corporate integrity was considered as an additional benefit for strategic purposes that companies could aspire to, if they chose to. Today, the business world has changed and stakeholder expectations on integrity now view integrity as an essential baseline aspect of any company in any industry. Integrity is generally defined as an individual’s quality of being honest and grounded in strong moral principles. In other words, it enables us to distinguish between good and bad. Given the nature of the concept and its intangibility, the task of measuring integrity presents numerous challenges both on an individual and organisational level.

Integrity on an individual level
A study by Kiel (2015) on more than 100 CEOs shows that the value of integrity on a leadership level has a strong impact on the value of the business, especially in terms of employee engagement and return on assets. Here, the measurement of integrity is solely based on employees’ perceptions of their CEOs. However, measurements based on perceptions are not the only option. Other possibilities stem from the field of organisational psychology, where measurements of integrity on the individual level, known as integrity testing, were designed. Originally, this idea was developed with the aim of providing employers with a tool to be able to screen potential employees who might be inclined to steal within the company.

The main example of overt test is given by the Reid report, made up of questions which aim at uncovering bad behaviours, such as theft, in individuals’ past. Besides being based on the assumption that past behaviours predict future behaviours, another questionable point of these tests was given by the likelihood that respondents would hide past dishonest behaviours, in fear of not being hired. Given these limitations, further developments in the area have built on the idea of personality testing, in order to be able to identify personality types which are associated with a higher likelihood of an individual being honest or dishonest.

The definition of integrity has also been extended to the organisational level, thus amplifying challenges in terms of measurement. While according to some, measuring integrity in an organisation corresponds to measuring the integrity of the entire set of individuals involved in the organisation, others argue for different approaches. As a matter of fact, even though the presence of employees and CEOs with values aligned to integrity can enhance the integrity of the organisation as a whole, this is not the entire picture given the interplay and interactions with processes and other stakeholders. Adopting a systemic approach to organisations, businesses are much more than the mere sum of the parts. This has been taken on board by the world of practitioners, especially business consultants endeavouring to design diagnostic tools related to organisational integrity.

Integrity on the organisational level
When designing tools to measure integrity, practitioners break up the entire organisation as a system made up of several different areas in order to create frameworks of general nature. One example refers to three separate spheres of the business: sustainable business growth, core value drivers and engagement of employees and other stakeholders. Other frameworks look at different levels of the business intersected with several different groups of stakeholders (i.e. leadership, policies, relationships, employees, community). These tools have been developed for diagnostic purposes, to be able to address the limitations of the company. They can also be used as frameworks to understand the potential risks which the business faces.

In terms of scholarly work, very few studies address the specific issue of measurement of integrity on the organisational level. Some work proxy integrity with other measures of related concepts, such as reputation and Corporate Social Responsibilities practices. Kaptein and Avelino (2005) devised a survey specifically designed to measure corporate integrity and which was distributed to more than 3,000 employees in the U.S. The underlying idea of the items of the survey is not only to measure actual unethical conduct, but also to assess the potential impact of unethical conduct and the corporate ethical climate as an element fostering further future
unethical conduct. The survey, therefore, lists a number of examples of unethical conduct asking respondents about their occurrence. Examples include misleading promises to customers, violation of workplace rules, discrimination, harassment, falsifying test results and offering bribes. A second set of questions, instead, focuses on the internal context and a series of scenarios vaguely inspired by ‘what-if’ principles, ranging from the administration of discipline in the case of violations to the diffusion of whistle-blowing practices.

Survey techniques for sensitive topics

The challenges of measuring integrity, especially at the individual level or in relation to individual behaviours, builds into a broader topic of the introduction of sensitive topics within surveys. The main problem with sensitive topics is that there is a high risk of distortion to the information provided in surveys, compromising the truthfulness. The reason for these distortions relates to three interrelated aspects: the presence of intrusive questions, the fear of disclosure of the information provided and a general sense of social undesirability (Tourangeau & Yan, 2007). To address this challenge, scholars have highlighted the importance of the interviewer, in order to build a trustful relationship, the design of surveys and of items, to reduce the sensitivity via appropriate wording and the adoption of specific administration protection procedures.

In addition to these aspects, it is possible to adopt particular experimental methods, aimed at reducing the likelihood of soliciting exact answers to sensitive questions. Randomized response techniques introduce random noise in the responses to protect the respondents’ answers to sensitive questions: one example is the forced response design, where a coin or dice forces the respondent to either answer yes or no or to answer truthfully.

List experiments, instead are based on the aggregation of the sensitive responses to the answers of other control questions. To be able to estimate the proportion of respondents for the sensitive items, a second experimental group is set up and is asked to answer to lists of questions excluding the sensitive items. Given the relevance of integrity in terms of stakeholder expectations and its impact on business value, it is important for leaders to introduce ongoing monitoring practices specific to integrity. However, the measurement of integrity is not a straightforward task and is still open to debate. It is undoubtedly true that a mere focus on employees is outdated and that a more holistic view to the organisation needs to be taken, as exemplified by diagnostic tools adopted by practitioners. As highlighted by Kaptein and Avelino (2005), integrity is not determined exclusively by past actions or behaviours, but also by prospective behaviours within the organisation. In other words, possible courses of action facing scenarios of hypothetical unethical behaviours. This can be grounded in evidence related to everyday or past practices but there is also a component tied to individuals’ perceptions. The next question then to address is whose perceptions should be investigated. The study by Kaptein and Avelino (2005) focused on employees, based on the assumption that they are the most well-informed of the happenings within the organisation. However, based on a more extended approach, it may well be the case that the perception of integrity of other stakeholders should also be taken into consideration.

In addition to these considerations, in light of the sensitivity of integrity measurements based on past “bad behaviours”, important insights may derive from considerations on how to reduce distortions in surveys from sensitive items. To this end, techniques such as randomised response techniques or list experiments may provide useful ways forward with regard to the measurement of integrity.

References

An experiment on deception and reciprocity

Case study
Dr Despoina Alempaki (with Gönül Doğan and Silvia Saccardo)

Reciprocity – responding to (un)kind actions with (un) kindness – is a key driver of productivity in the workplace. In companies where job satisfaction is high, productivity is higher than the average norm and absenteeism is lower, whereas in companies where employees’ satisfaction is low, e.g. during labour disputes, productivity drops. Changes in employee behaviour as a reaction to the workplace environment might stem from different sources; workers can alter not only the quality and quantity of effort provision, but also their engagement in unethical behaviour.

Unethical behaviour might serve as a reciprocity device anytime a direct reaction (e.g., effort reduction) is not feasible, for example, due to lack of power or fear of retaliation, which is often the case in the workplace. In such situations, workers might reciprocate negative encounters with deceptive behaviours that hurt the company, such as misreporting the quality of their work or faking sick days. Similarly, after positive experiences within the company, employees might abstain from carrying out unethical acts they would have otherwise engaged in; that is, they might reciprocate with honesty that benefits the company at a cost to themselves. Because deception, by its nature, is difficult to observe, empirical work offers limited guidance in investigating whether and to what extent deception is used as a punishment mechanism.

In this study, we use a simple two-player, two-stage game to experimentally study whether deception serves as a reciprocity device. The first-stage involves a dictator game. In the dictator game, Player A, “the dictator”, determines how to split an endowment of $10 between them and Player B. Player A can choose between sending $0, $2, $4, $6, $8, or $10 to Player B. Player A keeps the amount not sent to Player B. Player B is passive in the first stage, i.e., has no influence over the outcome of the game. In this setup, we consider an interaction as increasingly kind with increasing amounts sent in the first stage. Therefore, sending nothing is clearly unkind, and the kindness of the interaction increases with the amount sent.

In the second-stage, we study how the kindness of the dictator-game outcomes affect subsequent lying decisions, where lying always hurts one’s counterpart. In doing so, we ask Player B to respond to Player’s A kindness and examine whether the moral cost of lying varies when retaliating unkind actions is financially beneficial for the self (e.g., faking sick days), as opposed to costly (e.g., sabotaging a common project that has higher value for my manager). Player B in the second-stage has to make a choice between truth telling and lying. We hypothesized that Player B will choose more often to tell the truth and reward Player A if she was kind in the first-stage but will choose more often to lie and punish Player A if she was unkind in the first-stage. In line with our hypothesis, we find evidence that individuals engage in deception to reciprocate unkind behaviour: the smaller the payoff received in the first-stage, the higher the lying rates. Intention-based reciprocity largely drives behaviour as individuals use deception to punish unkind behaviour and truth-telling to reward kind behaviour. For beneficial lies, individuals have a moral cost of lying. However, for costly lies, that can be used as a pure punishment device, we find no evidence for such costs.

Taken to an organisational setting, our results suggest employees’ perception of how fairly they are treated in the workplace matters for preventing unethical behaviours, because kind acts are likely to be reciprocated with honesty. Especially in situations in which other punishment alternatives are absent, the moral costs of lying might be too small to prevent individuals from using deception as a form of retaliation. Organisations could design interventions that encourage positive reciprocity to enhance the saliency of the moral costs associated with behaving unethically and contribute to fostering a culture of honesty. Setting up channels that workers can use to address unfair treatment could help prevent deception from being used as a punishment device.

About the author
Dr Despoina Alempaki obtained her PhD in Behavioural and Experimental Economics from the School of Economics at the University of Nottingham in 2018. Previously, she was awarded an MSc in Behavioural Economics and Game Theory by the University of Amsterdam, an MSc in Advanced Computer and Communication Systems by the Aristotle University of Thessaloniki, a BSc in Economics and a BSc in Applied Informatics by the University of Macedonia in Greece. Despoina’s research focuses on morality, decision making under risk and (strategic) uncertainty, and preference change.
Project activity
As part of this project, we organised an academic conference on 2 and 3 July 2018 at the WBS campus at the Shard in central London. The theme was organisational ethics, i.e. ethics in the context of being part of an organisation (with roles, responsibilities and stakeholders), rather than viewing ethical problems as facing a lone decision maker choosing between possible states of the world. Part of the objective was to build and strengthen research links between different disciplines and make plans for how to further the research agenda. Below is a summary of each of the academic talks.

Trustworthy behaviour in banking: Incentives and structure
Dr Natalie Gold
In finance, a problem of trustworthiness occurs because firms can be motivated to pursue short term profits rather than the long-term interests of customers. Firms’ self-interested pursuit of reputation, combined with regulation, is often not sufficient to ensure trustworthy behaviour. Self-interest needs to be supplemented with non-self-regarding motivations on the part of employees of the firm, in order to support trustworthy firms. Trustworthiness manifests in the context of complex internal firm dynamics, so it is important to consider the roles of different units and employees (their purposes, obligations, and motivations), the structure of firms, and the relationships between sub-units. Ringfencing is needed to separate profit-focussed departments, with their self-interested motivations and reward structure, from financial advisory departments, which need to serve the interests of their clients. As well as preventing deception and fraud, many units need to do ‘intelligent information provision’, giving information about products that is intelligible to the buyer. Trust in leaders, who may want to change practices, is higher where they are perceived to share the values of subordinates; middle managers are often seen as a problem in changing the ways that a firm works. There may be specific problems of trust between teams within the firm.

About the speaker
Natalie Gold is a Senior Research Fellow in the Oxford Philosophy Faculty. She studied Philosophy, Politics, and Economics, and has an M.Phil and a D.Phil from Oxford. Prior to joining the faculty at Oxford, Natalie was a Lecturer at Edinburgh and then a Senior Research Fellow at King’s College London, where she was PI on the project “Self-Control and the Person: An Inter-Disciplinary Account.”

The cognitive mechanisms of contractualist moral decision-making
Dr Sydney Levine
Contractualism is a theory of moral philosophy that posits that an act is morally permissible if all the parties affected by the act would agree to it. We take this theory of moral philosophy as an inspiration for a theory of moral cognition. In this paper, we present evidence that, in response to certain classes of moral dilemmas, subjects have contractualist intuitions and use explicit contractualist reasoning. These data are poorly accounted for by current theories of moral cognition which rely mostly on the use of rules or calculations of consequences. We sketch out a rational model that captures these phenomena by predicting subjects’ moral judgments in response to these dilemmas as a function of their representation of the interests of agents who are engaged in a mentally simulated bargaining process. We conclude by discussing how a computational cognitive science of contractualism fits into a unified theory of moral cognition, a “Triple Theory”, which integrates elements of rule-based, consequence-based and contract-based cognitive mechanisms.

About the speaker
Dr Sydney Levine is a postdoctoral scholar in the Brain and Cognitive Sciences Department at MIT and Psychology Department at Harvard University. Sydney investigates how moral judgment works in adults, children, and artificial intelligences. She completed her PhD in the Rutgers University, and her dissertation was about moral rules and representations.
Organisational ethics and virtual agreements
Dr Hussam Zeitoun and Dr Tigran Melkonyan

Many social interactions require people to coordinate their behaviour across a range of scales. However, aspects of intentional coordination remain puzzling from within several approaches in cognitive science. A new perspective on the complex behavioural patterns – or ‘unwritten rules’ – governing such coordination, is proposed to emerge from an ongoing process of ‘virtual bargaining’. This concept can be described as follows: the involved parties behave on the basis of what they would agree to do if they were explicitly to bargain, provided the agreement that would arise from such discussion is commonly known. Although intuitively simple, this interpretation has implications for understanding a broad spectrum of social, economic, and cultural phenomena (including joint action, team reasoning, communication, and language) that potentially depend fundamentally on the virtual bargains themselves. Virtual bargaining idea can be also applied to within-organisation actions. Teams often self-organise very productively, but they can face “hold-up” problems. Similarly, all involved parties within an organisation can establish ethical truths by examining the pre-suppositions of discourse: “What would we agree to do?”, thus coming up with improved cooperative behaviour.

About the speakers
Hossam Zeitoun is an Associate Professor in the Behavioural Science Group and Strategy and International Business Group at Warwick Business School. Hussam was a Postdoctoral Researcher and Visiting Fellow at Warwick Business School. His principal research interests are behavioural science, corporate governance, and theories of the firm. He applies an interdisciplinary approach using psychological and economic perspectives.

Tigran Melkonyan is an Associate Professor in the Behavioural Science Group at Warwick Business School. He has worked as a Visiting Scholar at the International Monetary Fund. Tigran’s current research focuses on individual and strategic decision-making under risk and uncertainty, with applications to organisation, financial markets, and environment.

Assigning cause and blame
Prof David Lagnado

How do people reward or blame individual members of a team for a group outcome? Philosophers have argued for millennia about causality and responsibility, but people assign cause and blame effortlessly – even in complex situations. We often use sophisticated reasoning to argue the case, although this can be susceptible to biases. Deciding how to distribute responsibility is of central importance in society. Our research shows that when assigning responsibility to individuals of a team, people go beyond the consideration of just individual performance, and take into account factors such as the causal structure of the task, the intentions and knowledge of the participants, and the control hierarchy of the group. In particular, our studies show that responsibility increases the closer agents are to being pivotal for the team outcome. Also, conjunctive members in a team are held more responsible than disjunctive members: as the number of disjunctive members increase, their individual responsibility diminishes, but as the number of conjuncts increase, their individual responsibility stays constant. In addition, hierarchical organisation of team members matters in how people assign responsibility, as well as the knowledge and expectations about the intentions and motivations of others.

About the speaker
David Lagnado is a Professor at University College London, Department of Experimental Psychology. David investigates how people learn from uncertain data, and how they draw inferences and make decisions. He has a special focus on the role of causal knowledge in cognition, how people use causal models to interpret uncertain evidence and to attribute responsibility and blame.
Whistle blowers counteracting corruption: why speaking up matters?
Prof Marianna Fotaki

Organisational systems facilitate short term performance and conformity and the focus is often on compliance, not ethics - organisations can be quite ruthless in dealing with internal escalation of complaints and concerns. Whistle-blowers, present an opportunity for organisations to avoid major pitfalls and reputational damages since they raise concerns early. Additionally, whistle-blowers play a crucial role in helping to change paradigms and business models in the long-term. Whistle-blowers expose more fraud than all other means such as audit, police, accidental, management, but there is an ambivalence of the institutional logics and hence very limited support to whistleblowing activity. A study interviewing 92 whistle-blowers, conducted across different countries and industries, showed that whistle-blowers face factual financial and mental consequences of their activities. The study showed that whistle-blowers urgently require protection and practical assistance with whistle-blower claims, help with financial costs and support with impact costs, as well as career rebuilding advice and support. As long as we turn a blind eye to the whistle-blowers’ plight, the organisations who are true transgressors will continue unethical practices. By bringing forward the lived experiences of whistle-blowers it can counteract discourses with tensions arising when their individual moral intuitions collide with the organisational moral standpoint.

Organisations as creators of moral complexity
Dr Emmanouil Gkeredakis and Prof Jacky Swan

There is growing scholarly and practical interest in how organisations become ethical systems. Much of the literature on behavioural ethics assumes that individuals, who engage in (un)ethical behaviour and make (un) ethical decisions, face given types of ethical challenges (e.g., right vs. wrong, right vs. right). This talk aims to unpack how organisations do not only constitute sites where individuals encounter given types of ethical challenges, but also impinge on and transform the nature of ethical challenges. When organisations are conceptualized as social actors, we begin to see that, in their effort to systematise the handling of ethical challenges, they may develop and impose a normative moral language to be drawn upon by its members. The talk presents and analyses how the English National Health Service (NHS) has developed such complex language over time. Implications for further research are drawn. In particular, how do individuals, who are tasked to make decisions on behalf of an organisation, draw upon an organisation’s normative moral language to make ethical decisions? And how do they deal with tensions arising when their individual moral intuitions collide with the organisational moral standpoint?

About the speaker
Marianna Fotaki is a Professor of Business Ethics at Warwick Business School. Marianna worked as a medical doctor, as a volunteer for humanitarian organisations, currently focusing on the management of knowledge and networks where the aim is to improve innovation and is relevant across public and private sector organisations, currently focusing on the impact of business in society.

Disclosure, trustworthiness and unravelling theory
Prof Daniel Read

A central problem in all applied ethics is under what circumstances will information holders, such as marketers, choose to honestly disclose aspects of their goods that are relevant to consumers yet do not necessarily put those goods in the best possible light. Game theory offers a neat and elegant prediction. If marketers possess some information relevant to consumers, and consumers know they possess that information, then marketers will reveal that information unless it is the worst possible information relevant to their goods. Nondisclosure therefore reveals the information is the worst possible. The interaction between rational consumers and rational marketers therefore leads to maximum honesty, in the absence of any underlying honest motivations. I described a series of studies designed to test whether the market really does produce such honest behaviour. Four results stand out. Firstly, marketers (information providers) disclosed much less than predicted by theory. Secondly, the worst the information held by the marketer the less likely it was to be disclosed. Thirdly, consumers of information were highly charitable and largely did not realise that missing information was likely to be bad information. Finally, only by making highly salient that marketers had deliberately withheld information could consumers be brought to a reasonable level of scepticism. Overall, we propose that to achieve honest disclosure the marketplace we must rely on much more than just the scepticism of consumers to drive that disclosure.

About the speaker
Daniel Read is a Professor of Behavioural Economics at Warwick Business School. Daniel’s research focuses on judgment and decision making including intertemporal choice, choice under uncertainty and risk, heuristics and biases. Daniel has consulted for the UK government and the Financial Services Authority on behavioural economics, relating to consumer welfare and environmental marketing.
Trust and institutions
Prof Ulrike Hahn
Attitudes to institutions are no longer defined by left and right, but by a political realignment around those who have “faith in the system” and those who don’t. Only one in nine of the UK population think that the system still works, and globally half of those that are high-income, university educated and well-informed. Business is trusted by just a third of population, but it will lose trust unless it engages with the people, and demonstrates solutions to public concerns, so this is a fundamental real-world problem. Imagine you are receiving information from a source you know little about. It is reasonable to assume this source is not perfectly accurate or reliable. What should you do? How can you come to know the reliability of your sources? The research showed that people revise their beliefs about messages positively given they come from reliable sources and negatively given messages come from unreliable sources. It goes in the other direction: people revise their beliefs in the reliability of the source on the basis of the expectedness of a source’s claim. Therefore, it seems reasonable that people trust the system less: expectation and order of received messages is important. Communication is doomed if initial trust is lost.

About the speaker
Ulrike Hahn is a Professor of Psychological Sciences and a co-leader of the Elicitation Team at Birkbeck, University of London. Ulrike’s research focusses on human rationality in judgment, decision-making, and argumentation. She is particularly interested in the role of perceived source reliability on our beliefs as parts of larger communicative social networks.

Learning what to do: A reason-based approach
Prof Christian List and Prof Franz Dietrich
People often make decisions that cannot be naturally rationalised based on classical economic agent models. For example, people are very susceptible to framing effects, and often make decisions that satisfy them, that is choosing what is good enough, rather than what-would-be the best choice. A new reason-based framework attempts to explain and predict individual choices including the “irrational” ones. The key idea is that a decision-maker can only focus on some but not all properties of the options and chooses an option with “motivationally salient” properties he/she most prefers. The reason-based theory predicts that in a situation where an agent must take an action, a “rightness function” maps each context to the set of actions that are right or permissible in that context. Reason-based explanations can capture two kinds of context-dependent choice: first is the motivationally salient properties that may vary across choice contexts, and second, is that the properties of the options can be “context-related”, not just “intrinsic” to the options. This framework allows to explain boundedly rational and sophisticated choice behaviour. Since properties can be recombined in new ways, it also offers resources for predicting choices in unobserved contexts.

About the speaker
Christian List is a Professor of Political Science and Philosophy at the London School of Economics. Christian works at the intersection of philosophy, economics, and political science, with a particular focus on individual and collective decision-making and the nature of intentional agency. He has long-standing interests in social choice theory and the theory of democracy.
Franz Dietrich is a Professor at Paris School of Economics, CNRS. Franz’s research interests are in economics and philosophy focusing on decision theory from various perspectives: individual or collective, philosophical or formal, normative or positive, foundational or applied. He is also interested in individual decisions: reasons, motivations, preference change, and collective decisions.

A Philosopher at the Intergovernmental Panel on Climate Change (IPCC)
Prof John Broome
The Intergovernmental Panel on Climate Change (IPCC) recognizes that climate change is a moral problem. The authors of the IPCC’s recent Fifth Assessment Report therefore included two moral philosophers. I was one of them. I was at the “Approval Session” of IPCC’s Working Group 3 in Berlin; this was one of the most extraordinary experiences of my academic life. At our IPCC meeting, delegates from one hundred and seven countries treated the Summary for Policy Makers (SPM) as though it was a legal document rather than a scientific report. To achieve consensus, the text of the SPM was made vague, and its content diluted to the extent that in some places not much substance remained. Nevertheless, some paragraphs on ethics survive in the approved final version of the SPM. The IPCC’s main reports are written only by scientists and other academic authors. But because it has to be approved by a consensus of delegates from governments, the SPM was subject to some political interference. It contains nothing that has not been approved by the authors, but it was prevented from giving a complete picture as we see it. I emerged from this process angry at the censorship by governments, pleased about the mentions of ethics, and astonished by the process. I would not have missed it for anything.

About the speaker
John Broome is Emeritus White’s Professor of Moral Philosophy at the University of Oxford. He was a lead author on Working Group III for the Fifth Assessment Report of the UN’s International Panel on Climate Change. He is author of a “Climate Matters: Ethics in a Warming World”. He is a Fellow of the British Academy and the Royal Society of Edinburgh.
Does legal obligation reduce to moral obligation, and does it matter if it doesn't?

Prof Richard Holton

Actions judged right from a normative point of view are not simply those judged right from an instrumental cost-benefit position; rather they involve thinking that the normative system provides a reason to perform them, and to censure others who do not. Morality provides the obvious example. But can there be other normative systems that are distinct from morality? Hart (1961) famously argued that one only gets a true legal system when the officials take the internal point of view towards it, but that this does not amount to a moral point of view: the official think that they have normative reasons to obey the law, and to require others to do so, without needing to think that these are moral reasons. How should the moral and the legal be distinguished here? Hart’s own arguments seem to conflate normative reasons with genetic reasons. But following work by Tyler and Trinkner (2017), we can perhaps see legal systems as governed by distinct normative requirements that can underpin the distinction. And these distinct requirements give rise to rather different reactive attitudes on the arts of the agents concerned. Fostering and supporting such requirements and attitudes, and not trying to reduce them to those of morality, may make for more effective legal and other regulatory systems.

About the speaker

Richard Holton is Professor of Philosophy in the Faculty of Philosophy, at the University of Cambridge. His current work focuses mainly on Moral Psychology, Ethics, Philosophy of Law and Philosophy of Language. Prior to taking up his post at Cambridge he taught at MIT, and before that at Monash, the ANU, Sheffield and Edinburgh.
Practitioner workshops

Project activity
Following on from the academic conference, we organised a day of practitioner workshops on 4 July 2018 at the WBS campus at the Shard in central London. The aim was to coordinate future research and action around the challenges related to improving organisational integrity. The attendees included representatives from healthcare, finance, regulation, think tanks, ethical consulting, technology and academia.

There were four workshops, each focusing on a different topic:
1. Culture: What are the components of an organisational culture that positively supports ethical behaviour?
2. Justifying inappropriate acts: What motivates unethical behaviour and what justifications do people use?
3. Technology: How is technology hindering or helping to support ethical behaviour in organisations?
4. Transparency: How can we balance publicity and privacy in highlighting and addressing unethical behaviours?

Each workshop considered the following questions:

Framing the challenge
Stories: What are your experiences of the topic? What is your reason for being here?
Problems: What are the main problems to be addressed? Who are the main actors involved?
Insights: Why do these problems continue to occur? What one thing should we focus on?

Coordinating action
Goals: What are your own goals? What should be our collective goal?
Activities: What needs to be done to achieve these goals?
Actors: Who need to do what by when?
Interdependencies: What are the dependencies between activities? How might they be managed?

The next four pages provide a visual summary of each workshop.
Culture: what are the components of an organisational culture that positively supports ethical behaviour?
Justifying inappropriate acts: What motivates unethical behaviour and what justifications do people use?
Technology: How is technology hindering or helping support ethical behaviour in organisations?

Image: Laura at Outdraw.co.uk
Transparency: How can we balance publicity and privacy in highlighting and addressing unethical behaviours?
What next?

The aim of this project was to further discussions on many of the issues related to organisational ethics. Our aim is to help set an agenda for future research and action, rather than draw conclusions, recognizing that there are many other complementary initiatives. At WBS, we want to help create organisations that sustain and nurture their employees and have a positive impact on society. But we cannot do this alone. We hope this report stimulates new collaborations, both within and between academia and industry. There are many different ways we might work together, whether you’re an academic, researcher, consultant, leader, manager, employee or just generally interested in the topic.

**Multidisciplinary research programmes**: There are many academics at WBS who research topics related to organisational ethics from different perspectives, including organisational behaviour, behavioural science, economics, philosophy and public policy. We are always seeking collaborations and would be happy to discuss research ideas or joint bids for research funding.

**Research consultancy**: Given this variety of expertise, we often partner with organisations across the public and private sector. These partnerships provide us with evidence that is essential for our academic work and ensures we make a difference in the business world. The activities might involve analysing existing data to identify trends, investigating specific issues or problems, and trialling new ideas in the field. Every project is different so the first step is to find a common interest and then discuss how best we might collaborate.

**Discussions and events**: We hosted a successful academic conference and series of practitioner workshops as part of this project. We believe these are good ways to bring people together to discuss the latest research and understand what issues are faced by industry. A simple next step maybe to convene further discussions with people from academia and industry, with a view to coordinating next steps for research and action.

If you would like to discuss any of these opportunities, please contact:

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