Is Integrity the New Compliance?

Markus Pohlmann
Content

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Two Tales
1. Virtueland

- All are Saints!
- Moral values, moral compass, moral courage
- moral self-governance

No Crime?

Source: Pixabay
1. Durkheim’s Answer

- Petty Deviances would become capital crimes.
- Most Business would go bankrupt.
- The execution of morales would lead to the execution of dissidents.

Source: Pixabay
Moral Communication is the Communication of *Regard* and *Disregard*.

*Niklas Luhmann*
1. Mr. Average-Land

- All are petty wrongdoers!
- Moral opportunism
- Hypocrisy

Source: Pixabay
1. Rules in Mr. Average-Land

Deviation from a given pedestrian way:

If the short cut is $> \, 25\%$ shorter than the given way
1. Rules in Mr. Average Land

1. No one, no company can stick to all rules.

2. Part of the rule breaking is culturally accepted and functional.

3. Many Wrongdoers follow unwritten rules for the sake of the company.
Hypocrisy is a fundamental type of behavior in organizations: to talk in a way that satisfy one demand, and to decide in a way that satisfy another..

Nils Brunsson
Two Mindsets
2.1 Individual Deviance or Smart Criminals Corruption (Rational Choice)

- Personal gains;
- Opportunities;
- Costs (Sanctions).

White Collar Crime: (Deviant) Smart Criminals
2.2 Organizational Crime

- Organizational Benefits;
- Unwritten rules and Social Cocooning;
- High Ranked Insiders by any costs.

Organizational Crime: High Ranked Insiders playing by deviant rules
2.3 Lab Experiments, 2017, n=1,022 Students

Except for Brazilian students, the propensity to cheat is always higher if it’s for the benefit of the company and not just for personal gains.
2.4 Factorial Survey in Germany, 2018, n=250 CEOs

Propensity to act corrupt

Personal Gain

Organizational Benefit
2.4 Factorial Survey in Germany, 2018, n=250 CEOs

Informal rules

Major positive impact

Formal rules/laws

Minor negative impact

Propensity to act corrupt
The Story of a German Carmaker
Weak Implementation of Environmental Protection

- Weak Legislation, Law Enforcement and Monitoring (EU/FRG);

Source: Wikimedia Commons
### 3.2 Deviant Environment

<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>Manipulations</th>
<th>Deals/Fines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>VW Beetle</td>
<td>Sensor systems for temperature</td>
<td>120.000 $</td>
</tr>
<tr>
<td>1974</td>
<td>Chrysler, Ford, GM, Toyota</td>
<td>Sensor systems for temperature</td>
<td>Ns</td>
</tr>
<tr>
<td>1995</td>
<td>GM</td>
<td>deactivating Software</td>
<td>20 m. $</td>
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<tr>
<td>1998</td>
<td>Ford</td>
<td>deactivating Software</td>
<td>7.8 m. $</td>
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<tr>
<td>1998</td>
<td>Honda</td>
<td>deactivating Software</td>
<td>17.1 m. $</td>
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<tr>
<td>1998</td>
<td>Caterpillar Renault, Volvo u.a.</td>
<td>Defeat devices</td>
<td>83.4 m. $ + 1 bi $ for refitting</td>
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<tr>
<td>2000</td>
<td>BMW Motorbikes</td>
<td>Defeat devices</td>
<td>None</td>
</tr>
<tr>
<td>2004</td>
<td>Audi/VW</td>
<td>Defeat devices</td>
<td>VW 30.6 b. $</td>
</tr>
</tbody>
</table>

Source: https://de.wikipedia.org/wiki/VW-Abgasskandal
3.2 „Hoaxwagen“ - A Case of Organizational Crime

- Rising Sales of „Clean Diesel Cars“ in the US;
- No (illegal) personal gains;
- 42 Engineers and Managers,
- Insiders with long job tenure,
- tone from the top: If you’re not up to the task, someone else is.
Rule violations are to be excluded in advance and we therefore put strong emphasis on prevention. (Chief Compliance Officer of Volkswagen, Dr. Frank Fabian, June 2015)
Compliance
4.1 Two basic functions

Function 1: to reduce fines in the event of an offense and provide individual liability

Function 2: to prevent violations
  • by checks and controls
  • by training and education
4.2 Many Restrictions

1. The fulfillment of function 1 is restricting the fulfillment of function 2.


3. We need the operational units to engage without providing the “promised land”.
4.2 Many Restrictions

1. The more formal rules you install, the more deviations will take place.

2. Moral Education ≠ More Ethical Behavior!

3. Operational Business units are the agents of socialization, not the compliance department.
4.3 What should we not do?

- Over-regulation and overdoing education!

No way you comply with all that ...
4.3 What can we do? Some Ideas

1. Take Care for Diversity – Female Managers
2. Take Care for Outsiders – Open up Career Systems
3. Take Care for a lower Job tenure – Job Rotation
4. Support restructuring, avoid scapegoating
Conclusions
5. Conclusions

• Don’t go for Virtueland = more hypocrisy and deviance.
• Organizational and individual crime are two different stories.
• If you go after organizational crime, think about structural prevention.
Does anyone know where do we keep the unwritten rules?