

Leading an Ethical Culture

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**98% of the population
can rationalize
cheating “just a little”
in the right
circumstances...**

“Psychological distance”

Distance between people



Distance from money



The greater the distance, the more likely we are to be dishonest

SMORC

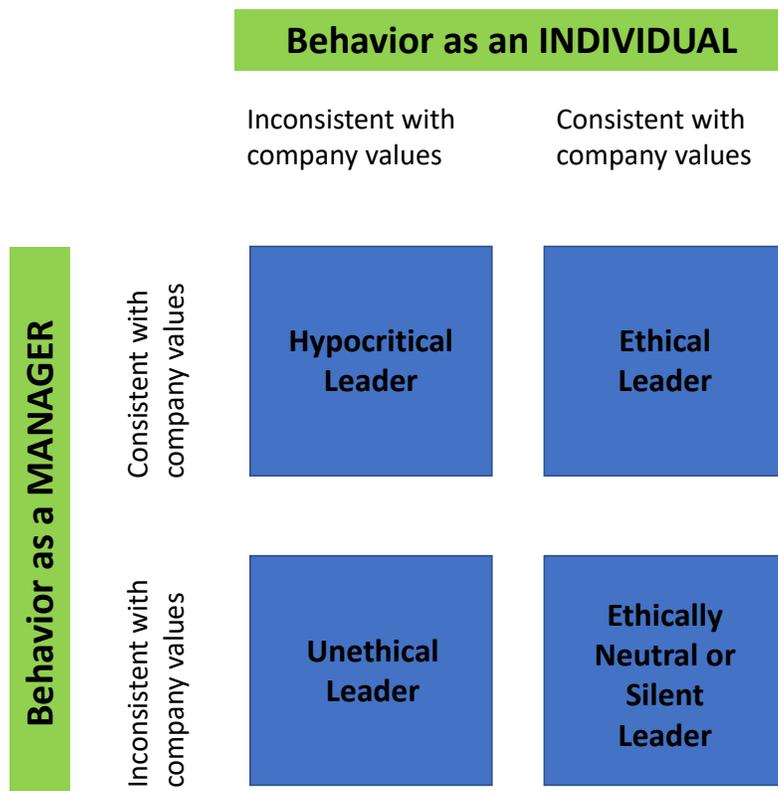
“Simple Model of
Rational Crime”

“Fudge” factor

Cheating “just a little bit,” in circumstances when you can rationalize your behavior

How can we reduce the urge to “cheat just a little?”

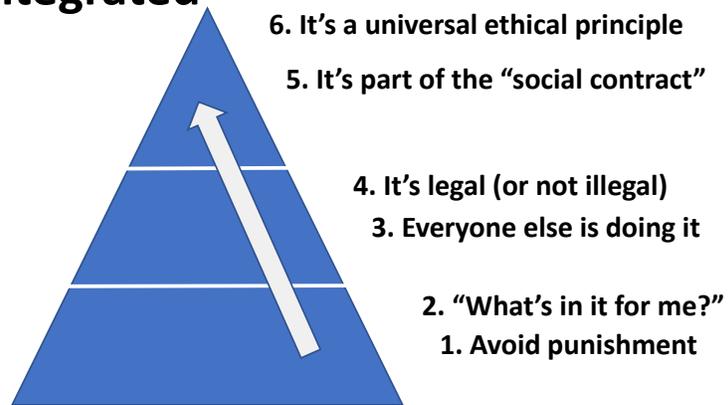
- Ethical decision making framework
- Reminders & “Nudges”
- Leadership mechanisms



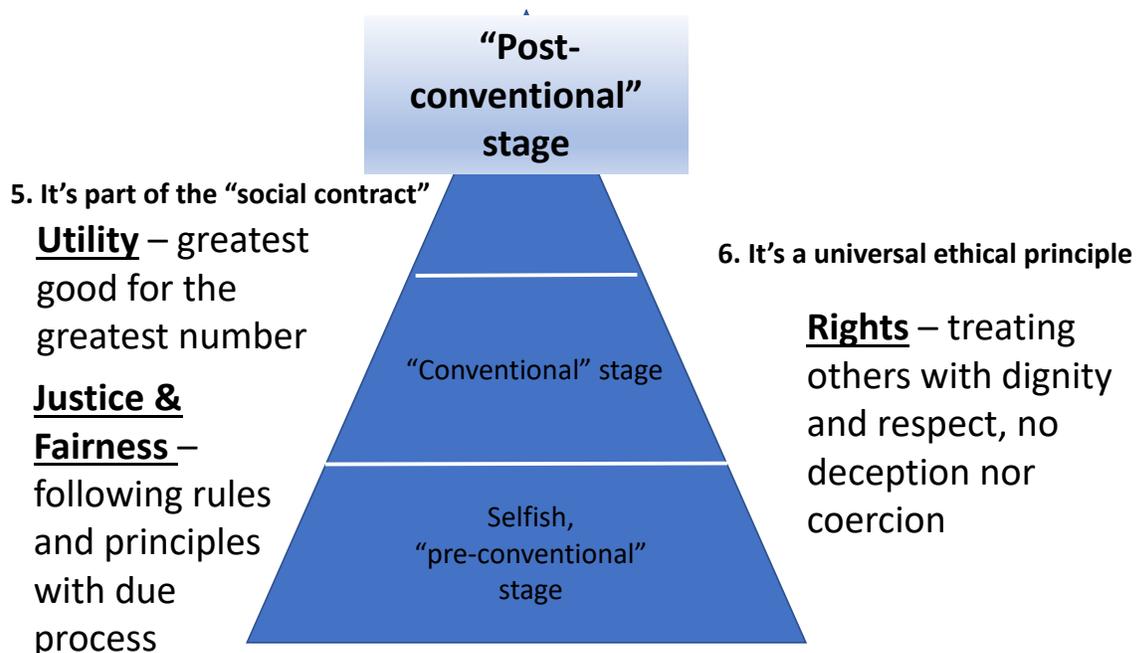
Source: L.Triveno, “Managing Business Ethics,” 6th ed.

Stage theory of moral development

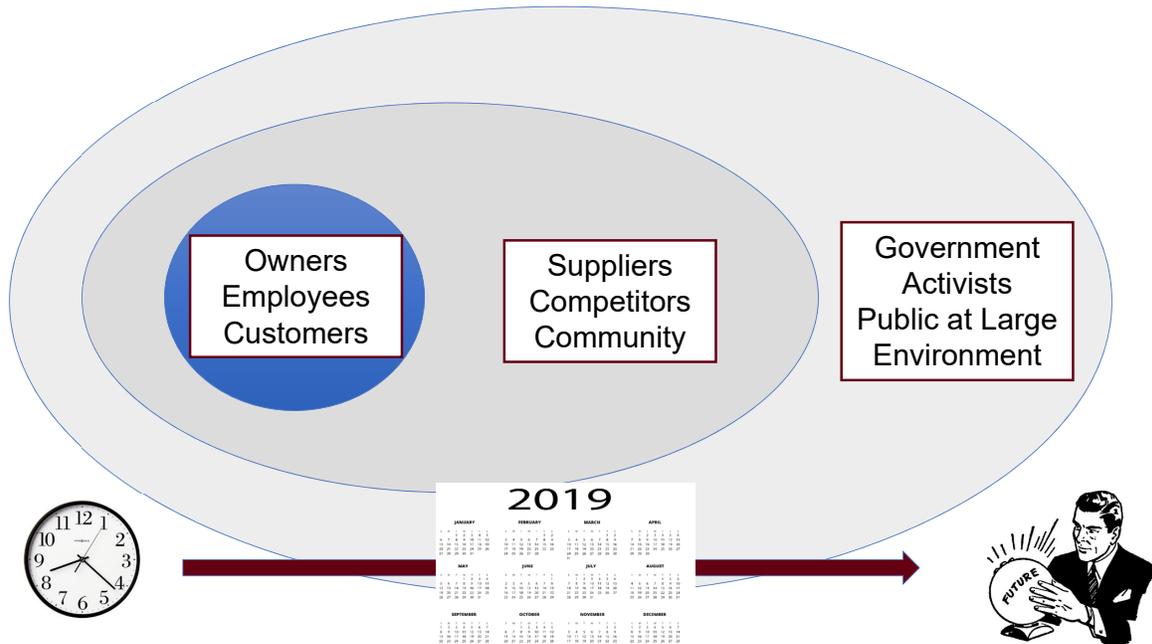
- Stages are sequential
- Develop over time
- Hierarchically integrated



Stage theory of moral development



Stakeholder Analysis



Reminders and “Nudges”

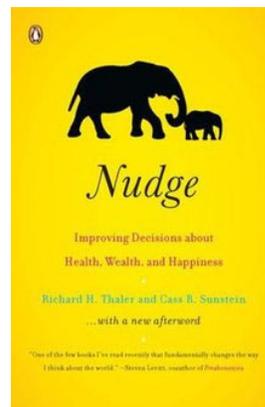
- If you follow the SMORC, you might assume that mandates and bans would be the best response to get people to cheat less.
- They don't – most people think of themselves and generally “good” people, not the “bad” people mandates and bans target.

Reminders and “Nudges”

- Experiments show that effective reminders can help individuals to cheat less
- Economic incentives can be effective, but they can be expensive
- Respecting the free choices of individuals, by using nudges, can also positively effect behavior and they generally cost very little

“Nudges”

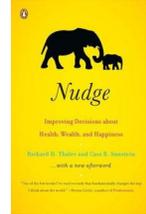
- Mandates/Bans ?
- Economic Incentives ?



“Nudges”

“... liberty-preserving approaches that steer people in particular directions, but that also allow them to go their own way”

“Nudges”



Ten Important “Nudges”

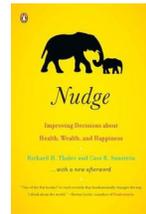
1.) **Default rules** (auto enrollment – “opt out” vs. “opt in”)

2.) **Simplification** (complexity causes confusion, increases expense, and deters participation)

3.) **Social norms** (“most students do not binge drink on weekends”)

Cass R. Sunstein, *Nudging: A Very Short Guide*,
37 J. Consumer Pol’y 583 (2014)

“Nudges”



Ten Important “Nudges”

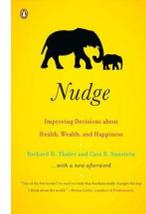
4.) **Increase ease and convenience** (put out bowls of carrots and grapes – “make it easy”)

5.) **Disclosure** (energy use, calories, full cost of credit – but message should be simple and direct)

6.) **Warnings** (graphic or otherwise – large fonts, bold letters and colors)

Cass R. Sunstein, *Nudging: A Very Short Guide*,
37 J. Consumer Pol’y 583 (2014)

“Nudges”



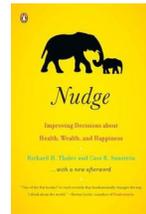
Ten Important “Nudges”

7.) **Pre-commitment strategies** (put goals into action – “I want to stop smoking” -> enroll in a smoking-cessation program)

8.) **Reminders** (text messages, phone calls, emails – timing is crucial – “prompted choice” – not required to choose, but asked if one wants to choose)

Cass R. Sunstein, *Nudging: A Very Short Guide*,
37 J. Consumer Pol’y 583 (2014)

“Nudges”



Ten Important “Nudges”

9.) **Eliciting implementation intentions** (“Do you plan to vaccinate your child?” Relate to identity: “You are a voter, as your past practices suggest.”)

10.) **informing people of the nature and consequences of their own past choices** (“Here’s how much you spent on energy costs last year.” – “smart disclosure” of information individuals may not have readily available)

Cass R. Sunstein, *Nudging: A Very Short Guide*,
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Ten Important Nudges

1. Default Rules
2. Simplification
3. Social Norms
4. Increase Ease and Convenience
5. Disclosure
6. Warnings, Graphic or Otherwise
7. Precommitment Strategies
8. Reminders
9. Eliciting Intentions
10. Informing About Consequences of Past Choices

Five Leadership Mechanisms

1. Attention

The issues that attract the attention of the leader...what is *criticized, praised or asked about...*

Five Leadership Mechanisms

2. Reaction to Crises

Crisis tests what the leader values and *brings these values to the surface*

Source: E.Schein, "Organizational Culture and Leadership," 4th ed.

Five Leadership Mechanisms

3. Role Modeling

Actions speak louder than words...*role-modeling behavior is a very powerful tool*

Source: E.Schein, "Organizational Culture and Leadership," 4th ed.

Five Leadership Mechanisms

4. Allocation of Rewards

To ensure that values are accepted, leaders should reward behavior that is ***consistent with those values***

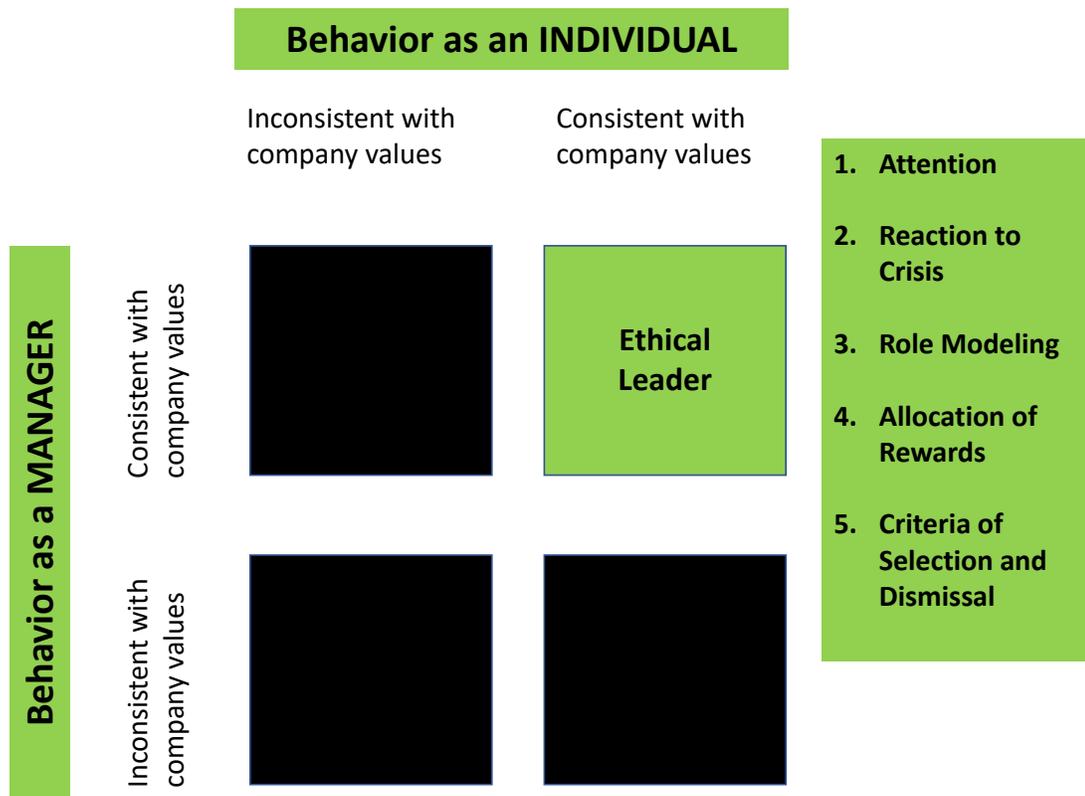
Source: E.Schein, "Organizational Culture and Leadership," 4th ed.

Five Leadership Mechanisms

5. Criteria of Selection and Dismissal

Decisions about whom to ***recruit or dismiss*** signals a leader's values

Source: E.Schein, "Organizational Culture and Leadership," 4th ed.



Source: L.Triveno, "Managing Business Ethics," 6th ed.

Final takeaways....

- **Doing the right thing, the right way, is often difficult.....but not impossible.**
- **Never be in a hurry to make a bad decision. Stop...think...reflect.**
- **As a leader, all eyes are on you. Every word, action/inaction, and decision drives the culture of your organization.**