**6. Culture, Ethics and Leadership**

**A. Culture**

There is not universal definition of culture.

Culture has been defined for a society and an organisation:

1. For a society/country

Culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values (Hofstede, 1981).

1. For an organisation

It is the congruence of stories, symbols, rituals, power structures, organisational structure and control systems (Johnson & Scholes, 1997).

**B. Ethical Corporate Culture**

Corporate culture plays an important role in the success or failure of organisations.

The ethical corporate culture promotes ethical values to do things in the right ways. Top

management is committed to ethics in the leadership role.

Companies with strong ethical corporate culture have:

1. Few misconduct among employees
2. There is high tendency to report misconduct among employees.
3. Top management team drives the ethical culture.

Corporate culture binds employees together and they understand the expectations and

values of their organisations and guide them in the way to do things in an ethical

manner.

**C. Ethical Leadership**

Corporate leaders are in every level in an organisation. They are responsible to instil ethical behaviour acceptable throughout the organisation in three fundamental roles:

(1) Through their communication, reinforcement and ethical decision making.

(2) As a moral person – based on personal traits – integrity, honesty, trustworthiness

and competency.

(3) As a moral manager - making proactive efforts to promote ethical behaviour in

employees

Leaders who fail to do so, may make others to perceive them as hypocritical leaders.

**D. Institutionalising Ethics within Corporation**

Society is demanding that organisations to be more ethical in their business practices.

The focus is on ethical culture and ethical leadership. Organisations have to be concerned in their ethical behaviour and the creation of an ethical environment within the organisation.

Further to this the society is also demanding that organisations exercise social responsibility to the social activities of the community.

Consequential effects are:

1. Organisations implement code of ethics
2. Provide training
3. Creating reward systems for employees who exercised ethical behaviour.
4. Monitoring systems and ethics audit are established to ensure ethical standards are being followed.
5. Pre-employment ethics screening of applicants.

Review Questions

1. Analyse the role of ethical leadership in inculcating ethical corporate culture in an organisation.
2. Briefly distinguish a national culture from that of an organisation.
3. In what ways ethical corporate culture can assist an organisation to attain competitive advantage?

……………………………………

Case study

**6. Arakian Ocean Tragedy**

PO Inc. is a leading multinational energy company involved in exploration and production of oil worldwide. It has been at the centre of attention globally, due to a series of horrific mishaps involving its refineries in Country X and the Arakian Ocean since 2005. The mishaps did not only claim several lives of its employees, but also damaged the environment badly. The biggest tragedy, which the media dubbed as the worst oil spill in history occurred in 2010. A blast on an offshore oil rig caused several million litres of oil to be spilled into the Arakian Ocean., killing 11 employees and dragging PO Inc. into the most severe business crisis of all times. The incident attracted media attention worldwide and quickly escalated to a public relation disaster as well as financial nightmare for PO Inc.

PO Inc. was then lead by a Chief Executive Officer (CEO) JJ Smith, who was criticised and ridiculed for failure to demonstrate ethical leadership at the time of such serious crisis. He assumed the position in 2007 when PO Inc. was embroiled with poor record of environmental and safety violations. He was outspoken and showed great determination to change the leadership style at PO Inc, which he claimed was overly focused on cost-cutting and obsessed with internal conflicts. He was the hope of PO Inc. to correct the company’s past ‘wrongdoing’. However, the oil spill tragedy forced him to resign in shame three years after his appointment as the CEO.

The oil spill tragedy started off with a catastrophic explosion and fire on PO Inc.’s drilling platform in the wee hours of 11 March 2010. The oil rig collapsed and spilled a massive volume of oil into the Arakian Ocean. The fire burned for months and damaged a large area of ecosystem across the Arakian Ocean. The tragedy pushed JJ Smith to the fore to face the media and handle the crisis. Initially, JJ Smith did not acknowledge PO Inc.’s role in the mishap and attributed the explosion to the owner of the oil rig and the company that constructed the oil well. He informed the media to wait for the full investigation to assign the responsibility for the incident. He further said, “We were not to blame. There were other parties involved. We did not own the rig.”

Several days later, JJ Smith spoke to the media again. He claimed that the affected area was small, given the sheer size of the Arakian Ocean, and refused the media’s request to visit the clean-up site. It was during this media conference that he said his life was a wreck ever since the incident erupted and he felt sorry for the loss of lives. He said, “It was an unfortunate incident affecting many lives, including mine. Let us end this disaster because I’d like my life back.” The media and public went into frenzy with this statement. The President of Country X directed PO Inc. to lead the clean-up effort of the oil spill to prevent further damage to a larger area of the ocean and its ecosystem. The stakeholders were exasperated due to the slow response to contain the oil spill. They were angry at the PO Inc. was dragging its feet in the clean-up exercise. PO Inc. took three months to cap the deadly flow of a few million barrels of oil into the ocean. By then, the oil spill had reached the coastal line of Country X and had caused irreparable damage to the ecosystem.

Within two months after the tragedy, PO Inc.’s share price went down by 60%. Two years after the tragedy, the stock price recovered, but it never returned to the pre-spill levels. In 2011, the government of Country X found PO Inc. guilty of several unethical violations that contributed to the size and severity of the spill. The investigation further revealed that PO Inc. had cut corners in its safety procedures and used low quality construction supplies for the oil rig, all in the name of maximizing profits. The Justice Department fined PO Inc. $6 billion and convicted it of 15 counts of manslaughter and lying to the authority. Three employees of PO Inc. were indicted on manslaughter charges while a fourth executive was charged with lying to authorities for wrongly estimating the flow rate of the oil during the tragedy. The three executives were found to have acted negligently in their supervision of key safety tests performed on the affected oil rig before the deadly tragedy. PO Inc.’s reputation was severely damaged and the company suffered a financial loss when it had to face several big lawsuits. Many argue that PO Inc. has never fully recovered from its tarnished reputation.

Questions:

1. Comment on the leadership of JJ Smith in handling the mega crisis of the oil rig explosion and its disastrous impact on the environment and the key stakeholders.
2. In your view, does corporate culture at PO Inc. contribute to this tragedy? Explain.