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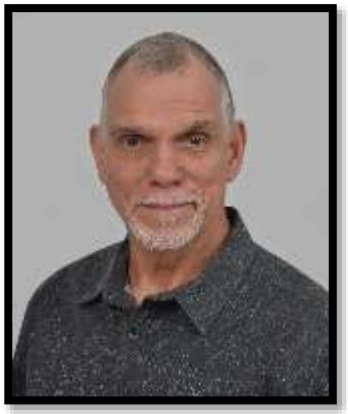
# Organizational Culture and Ethical Decision-Making During Major Crises



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*Abstract*

*By integrating various behavioral and ethical theories, such as Organizational Culture and the Social Construction of Knowledge, this research argues that emergency micro-cultures often emerge in times of crisis. Smaller, localized environments, permeated by this crisis culture, often produce an ethical myopia that corrupts wise decision-making. Unless insiders, either leaders or followers within a local setting, are able to meaningfully access ethical frames of reference existing outside the immediate context of the crisis culture, choices remain highly influenced by misaligned values distorted by proximate and introspective survival priorities with minimal regard for external or long-term ethical consequences. In this regard, Follett's (1949) concept of "the invisible leader," in which transcendent values for the "common purpose" of leadership are embodied, provides a potentially meaningful way forward in addressing this dilemma. Since social constructs significantly drive the values that influence decision-making (McLeod and Chaffee, 2017), respected, culturally rich, moral frames of reference that transcend the boundaries of the room emerge as important values clarifiers during important organizational decision-making, particularly in the midst of organizational crises.*

## Introduction

In Ibsen's (1882/2018) classic 19th century theatre production, "An Enemy of the People," the protagonist of the play discovers significant contaminants in the waters of a local hot springs renowned for its curative benefits. The town leaders, up to this point genuinely committed to the benevolent beliefs, values and practices of health and wholeness for their visitors, suddenly find themselves facing a crisis that threatens the welfare of their community. Health concerns for prospective bathers at the springs are now pitted against socio-economic concerns for the local economy if they are warned off. The plotline flows out of the emerging ethical debates that arise because the values, practices, assumptions and priorities of the leaders and citizens have shifted significantly under the pressures of the crisis. The social culture has changed because the status quo ethos that prioritized values and practices of positive health and well-being now regard the implications of those norms within the current circumstances as a significant threat. The "good" doctor who discovers the health crisis and chooses to maintain his ethical commitment to protect the tourists at the expense of the town becomes "an enemy of the people."

The research of Pascual-Ezama, Dunfield, Gil-Gomez and Prelec (2015) indicates that it remains extremely difficult to assume an ethical mantle that carries with it a meaningful risk of becoming "an enemy of the people" when confronters face the prospect of antagonizing

close colleagues whom they hold in high regard, even affection. The desire to be in the "in-group" and the corresponding fear of relegation to the "out-group" has been shown to powerfully influence values and behavior. This is particularly true within the compact boundaries of smaller social contexts like departmental meetings, board rooms or task-forces (Pillai, Hodgkinson, Kalyanaram, and Nair, 2016). More remote axiological influences arising from formalized ethical policy statements or external socio-cultural networks often lack the moral weight necessary to overcome the peer influence in the room. Many times, values are not simply violated, they are more precisely rationalized into submission to alternative values and practices more cooperative with the socially constructed consensus. As Dr. Stockmann, Ibsen's 19th century protagonist observed, "considerations of expediency and justice turn morality and justice upside down" (Ibsen, 1882/2018, p. 86).

## Corporate Culture and Organizational Scandal

The Wells Fargo Bank has, until recently, enjoyed a lofty reputation for excellent management, wise leadership, and ethical practices. Fortune Magazine celebrated them as the most admired bank of 2014 and continued to rate the bank among the most admired companies in 2015 across a number of factors including quality of management, and quality of products and services (Fortune Editors, 2015). The virtuous intentions of their official core values provide a noble frame of reference intended to inspire and guide the priorities and practices of the company within time-honored ethical values. Their official code of conduct proclaims in no uncertain terms: "We're committed to the highest standards of integrity, transparency, and principled performance. We do the right thing, in the right way, and hold ourselves accountable" (*Our Code of Ethics and Business Conduct,* 2019, p. 5).

However, Wells Fargo's carefully constructed value statements now stand in cynical judgment over what a U. S. Senate report brutally called a "culture of deception and deceit" at the bank (Examining Wells Fargo's Unauthorized Accounts and the Regulatory Response, 2016, p. 19). The same hearing record describes "a work environment characterized by intense pressure to meet aggressive and unrealistic sales goals" (p. 1). Under serious threats of job loss, bank employees were coerced to sell at least eight banking products (savings accounts, credit cards, overdraft protection, etc.) to each Wells Fargo customer under the glib rationale of then CEO, John Stumpf, that "eight rhymes with great" (p.1).

The bank's own organizational audit revealed that Wells Fargo employees were opening multiple accounts for existing customers without their knowledge by falsifying client authorizations, sometimes even forging their signatures (Shearman and Sterling, 2017). As a result, thousands of clients blindly paid (or were penalized for not paying) various fees, interest payments, and penalties. Customer credit scores suffered. Wells Fargo core value statements, so-named precisely to represent foundational ideals genuinely held in high regard, clearly failed to protect the organizational decision-making processes from blatant violations of ethical, even legal, normative prescriptions. What happened?

The immediate tendency is to blame the unsavory personal vices of individual Wells Fargo leaders. CEO Stumpf and the head of community banking, Carrie Tolstedt, were both eventually fired by the board of directors for their arrogance, greed and power-lust (Frost and Giel, 2017). Even so, despite the prevalence of ethical malfeasance among particular executives at Wells Fargo and other corporations in recent years, Gino (2015) has observed that many organizational scandals are often driven by "unethical actions committed by

people who value and care about morality" (p. 107). Baron, Zhao and Miao, (2015) similarly argue that leaders are normally guided by positive virtues. Even Wells Fargo, writes Pastin (2018), apparently with a straight face, "was trying to run an ethical business" (para. 1).

Even so, recent corporate scandals reveal the emergence of "a cognitive process that deactivates moral self-regulation, thus enabling individuals to behave in ways inconsistent with their own values" (Baron, Zhao and Miao, 2015, p. 107), especially during crises. Kocher, Schudy and Spantig (2017) have found that managers who normally behave ethically are more likely to demonstrate dishonesty within an organizational context where emerging group values rationalize moral compromise as an appropriate way forward under prevailing pressure-cooker conditions. The inclination to quickly blame organizational malfeasance on "bad apples" appears to be an overly simplistic explanation (Searle and Rice, 2017). Something more complex is going on.

## Organizational Culture and Ethical Policies

In this regard, Meyer (2017) describes increasing scholarly support for analyzing ethical misconduct under the more comprehensive rubric of organizational culture. Schein's (2016) updated research into organizational culture continues to offer a robust theoretical framework within which to examine corporate decision making. An organization's culture operating as a multi-dimensional web of influence emerges as a totality far greater than the sum of its parts. Individual leaders and followers matter, as do particular policies, but ultimately it is the integrated network of the organizational culture that drives decisions. Guiso, Sapienza and Zingales (2015) note that "proclaimed values appear irrelevant" (p. 60) to actual practices unless they emerge as an accurate reflection of the existing corporate culture during particular decision-making moments.

Much of the leadership literature credits Peter Drucker for creating the phrase "Culture Eats Strategy for Breakfast" (Whitzman, 2016). However, Ellinas, Allen and Johansson (2017) note that the wisdom-rich quotation was actually a widely used "public domain" maxim in search of an author. Drucker simply beat out Jack Welch (also credited as a source) in the court of pundit opinion as its preferred source. It is not surprising then that other leadership and management writers provide the quote with much of its clarifying commentary.

Schein (2016), who states that "culture determines and limits strategy" (p. 377), provides a description of organizational culture that many academic scholars and institutional practitioners regard as significantly useful (Hogan and Coote, 2014). Schein writes:

> *The culture of a group can now be defined as a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems* (p. 18).

Schein's (2016) definition helps us see more clearly that "Drucker's maxim" elevates the influence of the culture: the interrelated tapestry of thoughts, perceptions, and feelings of those within the organization, to significantly higher levels of power than do isolated strategic plans or formalized policies. These softer axiological dynamics interconnect, hold together and drive organizational decisions forward to a significantly greater degree than do the more sterile influences of a solidly framed strategic plan. In this regard, Schein claims that the "dynamic processes of culture creation and management are the essence of

leadership and make you realize that leadership and culture are two sides of the same coin" (p. 3). The prevailing organizational culture will consume any directives, processes, policies, plans, prescribed values and/or mission statements that exist out of alignment with the actual prevailing values on the ground.

## Crises Often Reshape Organizational Culture

When organizations face crises serious enough to threaten significant institutional damage, a "state of emergency" mindset often emerges (Campbell and Goritz, 2014). It seems that desperate times sometimes call for desperate cultures. On a personal level, I have participated on a university senate at a graduate school in Nairobi, Kenya that enjoyed a long-standing reputation for faithfully demonstrating its core values of integrity, transparency and accountability. However, in the midst of a sudden and crippling financial crisis in 2014 we began to heatedly debate heretofore clear-cut ethical guidelines. Should we inform our PhD students that our program had been denied accreditation until we were able to comply with sizable government requirements that could take us years to fulfill? Ought we disclose to the Kenya Revenue Authority our discovery that we had illegally withheld payroll taxes for the previous two plus years without passing the funds on to the government? Reasonable arguments anchored in a passionate agenda to protect the school from exacerbating our financial crisis and to shield our organizational brand as we struggled to survive began to sound (and feel) practical, courageous, even moral. In the face of the concrete realities of these crises, counter appeals to abstract notions of integrity and accountability seemed like naïvely foolish idealism.

Although my experience at the college took place within the sub-culture of the University Senate, Schein (2016) maintains that branches, departments, boards and other smaller contexts within an institution also exhibit distinct cultural dynamics. Van Rooij and Fine (2018) note that Wells Fargo had a highly decentralized organizational structure in which departments functioned as interconnected but relatively autonomous entities. These silos provided corporate divisions with significant insulation from broader organizational critique. The normal paradigms of the larger organizational culture designed to preserve positive ethical actions: core value statements, codes of behavior, best practices, noble slogans, melted under crisis heat. A distinct "state of emergency" organizational culture characterized by rhetoric grounded in Katz' (1992) classic "ethics of expediency" emerged. Campbell and Goritz (2014) note that when facing crises, leaders often justify toxic behavior with ends-justify-the-means axiology rationalizations and "desperate-times-call-for-desperate-measures" practices. This tendency was heightened at Wells Fargo by the decentralized values and practices within the localized culture because they were isolated from whatever positive influences remained in the broader cultural influences of the larger organization. Within the silos of decentralized departments, leaders could act unhampered in their use of "crisis ethics" (McConnell, 2010) to elevate survival values among their sales force in order to drive decisions at odds with more global ethical ideals.

## Cultural Norms Drive Ethical Values and Practices

Although Wells Fargo was not experiencing any major crisis at an institutional level, Morris (2016) writes of a "boiler room" culture, particularly within the sales departments of the bank. Driven by senior and middle management, nearly impossible performance standards supported by unscrupulous tactics were implemented as respectable organizational norms.

One former salesperson described the extent of the toxicity as “a systemic thing that was taught. It’s the sales culture” (para. 4). Far beyond the isolated problems of a few rogue managers, employees were regularly barraged with twisted moral reasoning to describe the additional products being deceptively foisted onto customers.

Appealing to ethical norms that could only sound meaningful inside the deluding cultural matrix of Wells Fargo, managers challenged sellers with the high-handed exhortation: “If you don’t meet your solutions you're not a team player” (Arnold, 2016, para. 22). The dishonest practices at the bank were being promoted among the sales persons as pseudo-virtuous “solutions” for the greater good of “the team.” When crisis values dominate, even the use of guilt can be cynically employed to drive unethical behavior.

The executives promoting the toxic culture at Wells Fargo had also somehow managed to convince themselves to a significant degree that what they were doing was ethical within the context of their organizational culture. CEO Stumpf, defending the banks practices, boldly proclaimed in a memo, “In any case, right will win and we are right” (Colvin, 2017, para. 33). In this regard, Van Rooij and Fine (2018) observed that Wells Fargo had “normalized deviancy” (p. 16). Both leaders and followers justified the ethics of their practices by effectively resetting the paradigms of the values that drove their behavior. During his testimony before Congress, Stumpf interrupted a detailed exchange saying, “I care about outcomes, not process” (Ochs, 2016). The toxic values and practices on display, having become part of the localized emergency culture, became a fearsome gauge for the sales staff against which personal success or failure could be both cognitively and affectively evaluated. In a desperate effort to keep up, employees bought into the departmental narrative arguing that emerging unethical practices (means) could be justified on the basis of the prospect of the “greater good” in terms of individual and corporate results (ends).

The research of Regan and Sachs (2017) observes “the crucial link between organizational culture and individual behavior” (p. 53). This link helps explain how survival values elevated formerly questionable practices to a level of perceived moral legitimacy within a shifting organizational culture. Previously clear issues of right and wrong, such as those formalized in core value statements and corporate ethics policies, became sincerely muddled – not simply defied.

Employees are naturally socialized to follow the behavior of those around them, often irrespective of their personal beliefs. Employees may even tend to internalize organizational norms by accepting the organizational culture as their own. As such, socialization and internalization determine the ethical direction employees take as individuals and as a collective (Premachandra & Filabi, 2018, p. 19).

The complex web of influence acting through the organizational culture upon individual decision-making created real moral dilemmas at Wells Fargo that remained genuinely difficult to resolve.

## The Social Construction of Reality

Seminal research by Berger and Luckmann (1966) into the social construction of knowledge and values argues that a person’s sense of reality: what is true, important, good, and beautiful (or not) about the nature and meaning of phenomena, develops through socially mediated interpretations of one’s experience in the context of interactions with those who surround us. In other words, our values and beliefs and ethical paradigms are meaningfully

shaped by our complex cognitive and affective interaction with the small and large cultures around us. Because perceptions of reality are so significantly influenced by the social construction of reality, the organizational cultures in which these formations occur become foundational to the quality of decision making. During crises, as survival values rise above principle-centered guidelines, organizational culture protectively shifts in defense of the status quo and an emerging "crisis ethics" (McConnell, 2010) increasingly drives institutional practice. Top-down abstract principles of organizational behavior stripped from the sensation and intensity of the interactive cultural experience of context and consequence, lose their moral appeal when the sky is falling. As the mythical Peter Drucker might say, "Culture eats strategy (even ethical strategy) for breakfast."

The social construction of one's knowledge and sense of reality at work within the proximate organizational culture exercises powerful influence over the individual. Those who have the moral tenacity (and temerity) to stand up against the developing pseudo-virtuous consensus within the organizational culture often find themselves not only at odds with the group, but at war with themselves. Research conducted by Cailleba and Petit (2018) explores the moral ambiguity that often accompanies efforts to ethically navigate within prevailing cultural values and practices. The guilt associated with violating the abstract norms of ethical codes and best practices collide with feelings of shame accompanying the existential reality of "out-group" status attributed to anyone opposing the often-reasonable arguments of highly respected friends, colleagues and superiors. Even so, the socializing influence of organizational culture upon the individual does not require a collapse into determinism.

## Organizational Culture and "The Invisible Leader"

The concept of the invisible leader describes an organizational mindset, articulated in the mid-20th century by Follett (1949/2013) in which the "common purpose" emerges as the ultimate leader. This perspective, in addition to providing benefits to other organizational processes, also provides an ethical heuristic arising from a more inclusive global consciousness toward the values and agendas of the organization's vast array of stakeholders, most of whom exist "outside the room" of the decision-making micro-culture. Follett describes this framework:

> *Leader and followers are both following the invisible leader – the common purpose. The best executives put this common purpose clearly before their group. While leadership depends on depth of conviction and the power coming therefrom, there must also be the ability to share that conviction with others, the ability to make purpose articulate. And then that common purpose becomes the leader. And I believe that we are coming more and more to act, whatever our theories, on our faith in the power of this invisible leader. Loyalty to the invisible leader gives us the strongest possible bond of union, establishes a sympathy which is not a sentimental but a dynamic sympathy* (p. 55).

Had the Wells Fargo sales executives and followers kept this "common purpose" as their invisible leader, all the stakeholders of the bank: clients, customers, prospects, employees, shareholders, even executives, would have been factored into the decision-making ethos.

Maroosis (2008) notes that Follett's idea of the common purpose serving as the ultimate leader creates an innovative dynamic of "reciprocal followership" in the leadership process. Since both the leaders and followers take responsibility for accomplishing the common purpose, followers also emerge as important influencers in organizational leadership.

Leaders, acting as reciprocal followers of the invisible leader, remain under the influence of followers who are also actively engaged in the common purpose. When organizational members, both leaders and followers, follow a meaningful narrative of the common good, one that extends beyond the micro-culture in the room, this mindset can provide a stabilizing influence when the localized organizational culture descends into crisis ethics. The reality of the "invisible leader" can meaningfully emerge in decision-making conversations so that the established, more comprehensive ethical values and practices of an organization can compete meaningfully.

## Fighting Organizational Culture with Organizational Culture

The implications of the social construction of knowledge and its power to influence the perception of reality within the organizational culture mean that the paradigmatic strength of a person's practice-driving values must be greater than those provided by propositional statements of institutional ethics. Virtue must arise from within a web of support provided by an actively rich cultural context. The state-of-emergency organizational culture that threatens a group with toxic values and practices must be met by an equally vibrant organizational culture that follows the invisible leadership of the common purpose. Culture consumes mere strategy and principles. Core values, right practices, and ethical policies fundamentally require Schein's (2016) supporting tapestry of beliefs, values, thoughts and feelings, even when they arise from outside toxic environments, to be effective ethical drivers within an organization and its sub-groups.

Alternatives to the powerful crisis culture in the room require the imposition of an equally powerful culture outside the room, one that supports the common purpose of the invisible leader. For organizations to survive the threat of significant ethical crises, transcendent "common purpose" paradigms must remain accessible to those within the crisis smitten emergency culture. Enron whistleblower, Sherron Watkins, drew upon the meaningful cultural narratives surrounding the struggles of Martin Luther King and Alexander Solzhenitsyn (Swartz & Watkins, 2003). WorldCom's Cynthia Cooper similarly found a vibrant cultural frame of reference outside her collapsing micro-culture in the lush tapestry of her family culture (Cooper, 2009). These meaningful webs of beliefs, values, thoughts and feelings strengthened their commitment to the common purpose and invisible leader beyond the room. My own convictions at the small college suffered long battles of ethical uncertainty because the prevailing "ends justifies the means" rationalization framed immoral (even illegal) choices as ethically preferable. It was not until I began to bring the alternative culture of my transcendent values and practices from the Jesus narratives of my faith community to bear upon the culture in the room that I began to see my way clear and decide accordingly.

## Conclusion

Courage is important (Howard, Farr, Grandey, & Gutworth, 2017). Principles are important (Covey, 1991). Yet, courage and principles without the cognitive and affective processes of socially constructed ethical perception provided by more comprehensive alternative organizational cultural paradigms remain inadequate. Healthy counter-cultural ethical perception comes first, then principles, and then moral courage. Individual integrity to stand firm against the headwinds of a toxic organizational culture remains possible. However, apart from a meaningful connection to a strong alternative organizational culture "outside

the room" of the toxic emergency culture, individuals and groups remain alarmingly vulnerable to the social construction of narrowly localized toxic values and practices along with their destructive consequences.

Organizations have long valued individuals of moral courage and personal integrity as their leaders and followers. However, corporate history has shown that during times of crisis when survival values are extraordinarily elevated, courage and integrity are often not enough. The answers to basic questions of right and wrong remain elusive when consequences during a corporate emergency become complicated. This paper argues that individuals within an institution or one of its sub-cultures have a fundamental need to maintain meaningful connections to ethically rich cultures that offer alternative frames of reference (extended family, social organizations, religious institutions, service clubs, etc.). Such exposure offers the rich cognitive and emotional support of alternative organizational cultures outside the influence of the ethical turbulence disrupting the localized cultures within the vortices of corporate crises.

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