

Business Risks related to Human Behavior

- Why Good People Do Bad Things
- The role of national culture vs organizational culture
- Implications for effective risk and compliance management

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* non-practicing

The views and opinions expressed in writing and spoken during this presentation are the personal view and opinions held by the presenter and not those of an association he is or was affiliated with.

Ethics, Risk & Compliance

- Ethics: “Doing what’s right” – Values / input, not observable
- Risk Management: Decision-making to reach objectives under uncertainty
- Compliance: “following the rules” (any rules) – Behavior / output, observable

Human Risk*



Actual behavior

Control design,
expected behavior

«The Risk of People doing things they shouldn't or not doing things they should.»

It's the biggest risk facing most organizations.»

* Definition: Christian Hunt, <http://human-risk.com>

A „desire path“ – an example of Human Risk in action.

Ethics, Risk & Compliance is the management of Human Risk

- Put simply it is all about «good» decision-making
- Values-/ principles-based decisions („doing the right thing“)
- Risk-informed decisions (taking „smart risks“ in gray areas)
- Conforming to spirit and letter of applicable rules & regulations (a.k.a. “Compliance“)

Why good people do bad things

- Bounded rationality, predictably irrational (Dan Ariely)
 - Rationalization, “fudge factor”
- Kahneman: Fast and slow thinking (S1 & S2)
 - cognitive biases, heuristics
 - ... may lead to blind spots
 - ... And fast, unconscious decisions
- Role of the environment, strong situations, institutions – and **CULTURE** (both organizational and national)
- Even with good intentions we can end up in bad situations
- It’s not about “bad apples” – it’s about you and me

Meanwhile
in Turkey...



Meanwhile
in Turkey...



Meanwhile
in Turkey...



Meanwhile
in Turkey...



So, why is CULTURE relevant for effective Ethics, Risk & Compliance?



National culture has to do with VALUES and strongly affects (local) organizational culture (PRACTICES), decision-making and the level of Human Risk

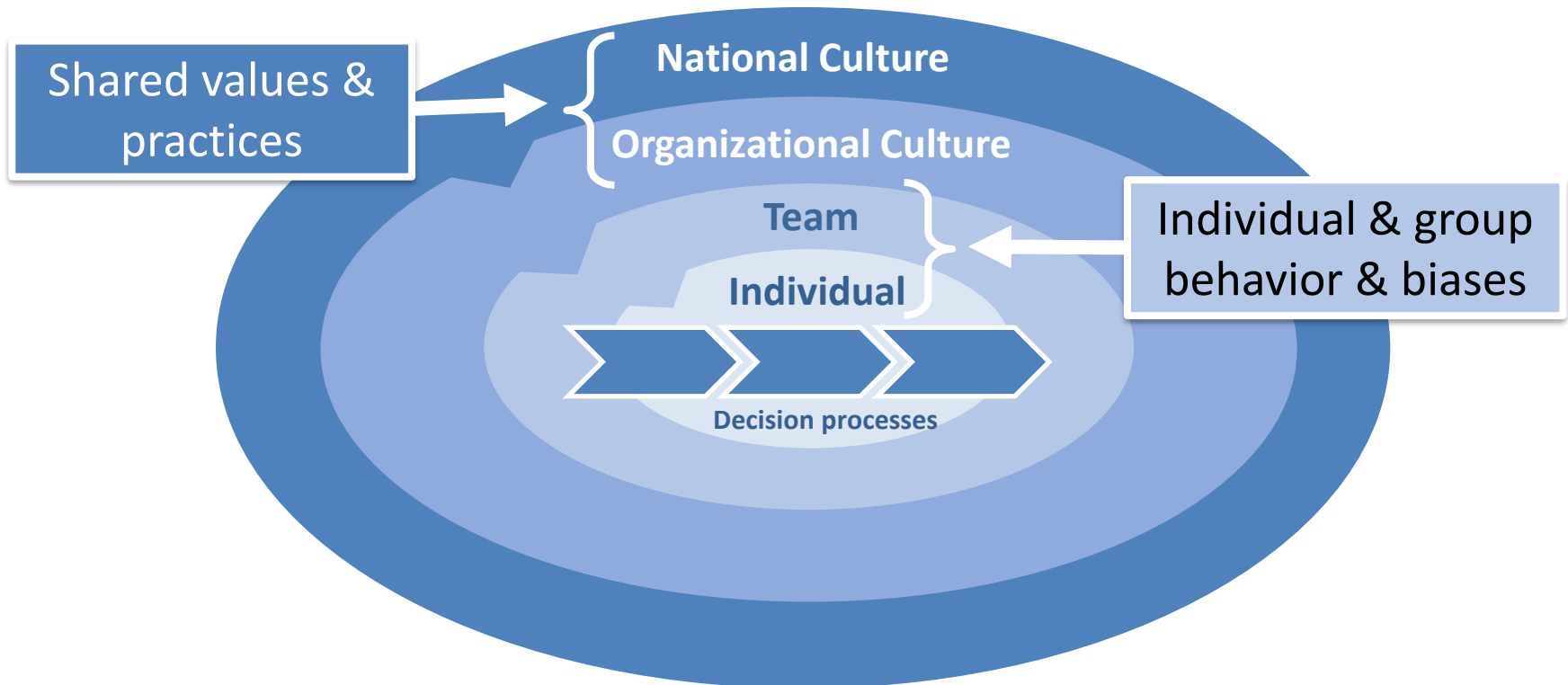
Hence, better understanding national culture(s), e.g. using cultural models, we can...

... identify challenges **and opportunities** for better managing Human Risk in different countries (and drive a more effective E&C Program).



The role of Culture

Decision-making in organizations takes place in multiple layers of context



National culture vs. Organizational culture

National Culture is about the **value differences** between groups of nations and/or regions.

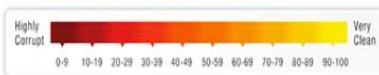
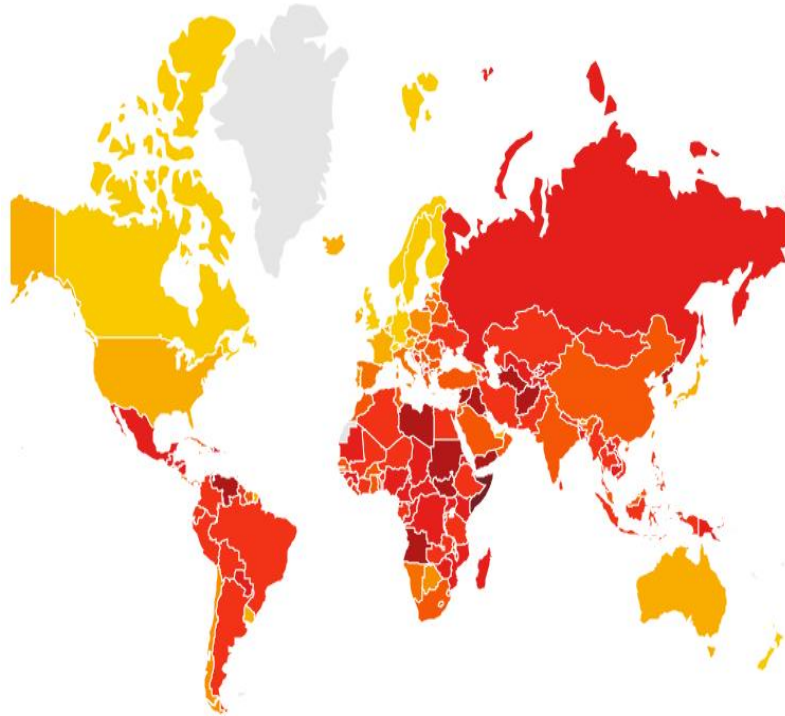
- _ Shared meanings
- _ Unconditional relationship
- _ Born into it
- _ Totally immersed



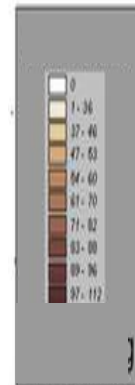
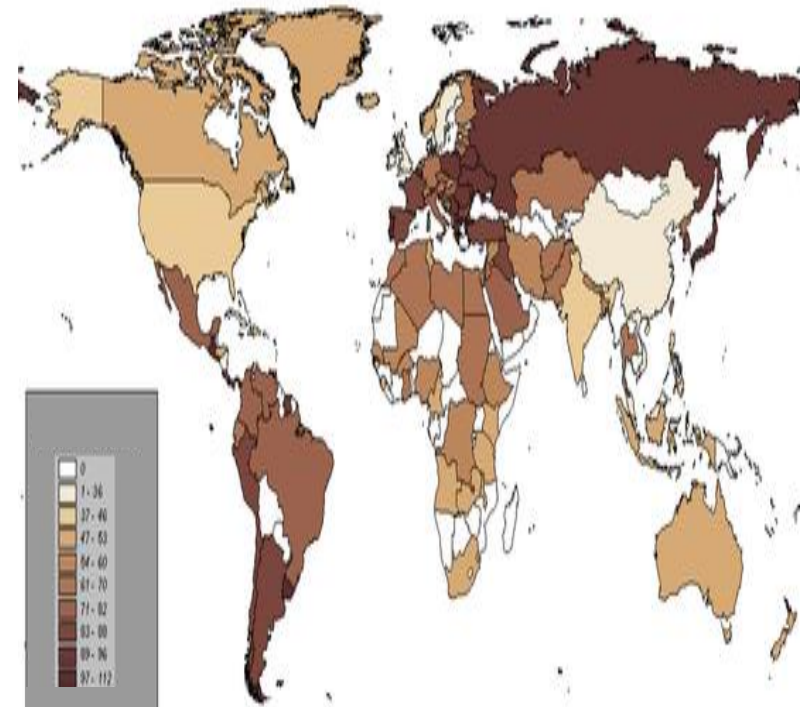
Organizational Culture is about the **differences in practices** between organizations and/or parts within the same organization (sub-cultures).

- _ Shared behaviors
- _ Conditional relationship
- _ Socialized into it
- _ Partly involved

Visually compare ...



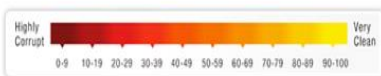
CPI



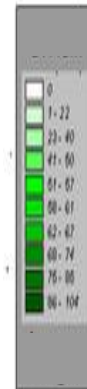
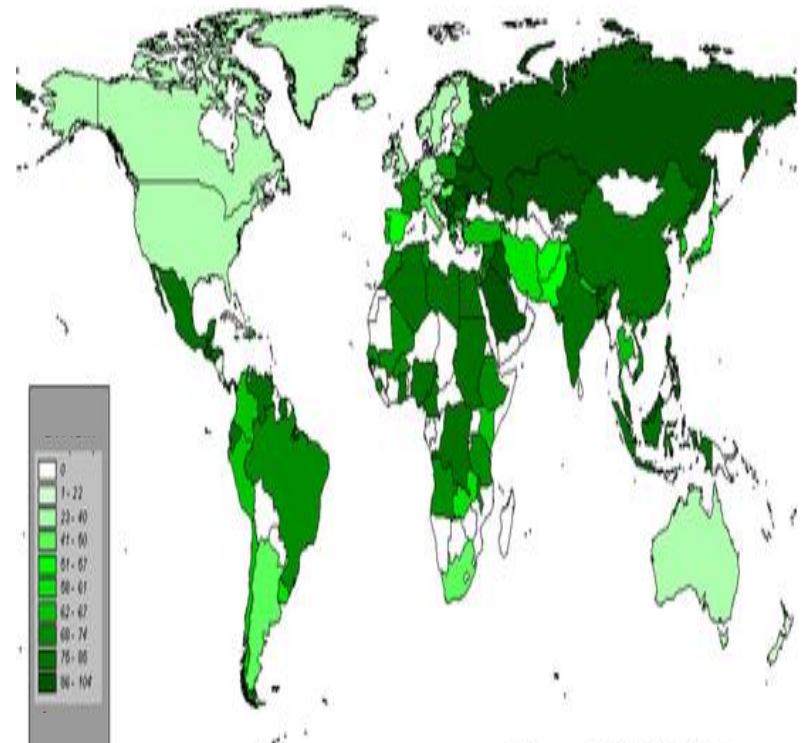
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„culture dimension“ A

...and compare ...



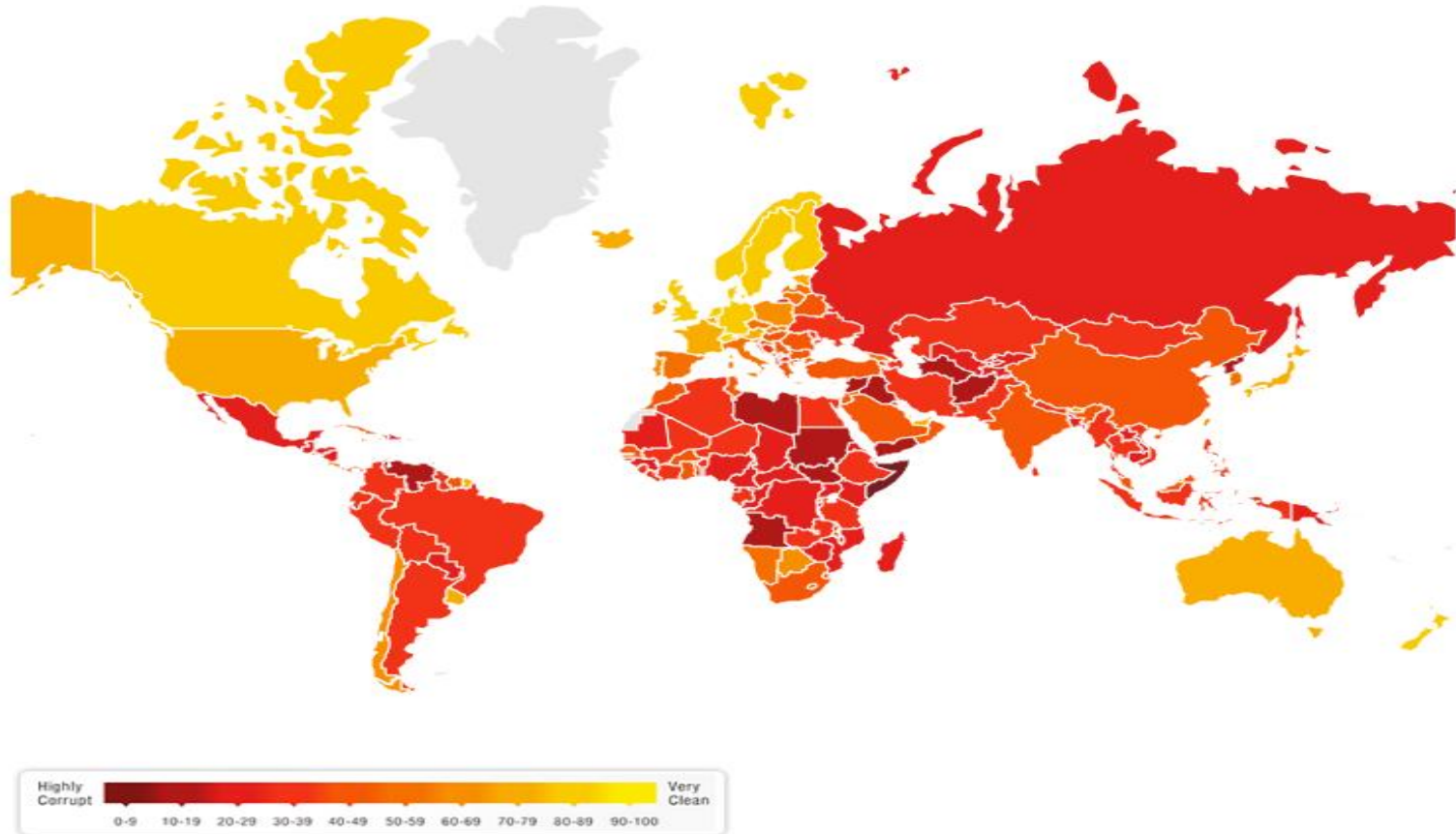
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„culture dimension“ B

Observation: Corruption Perception* in the World

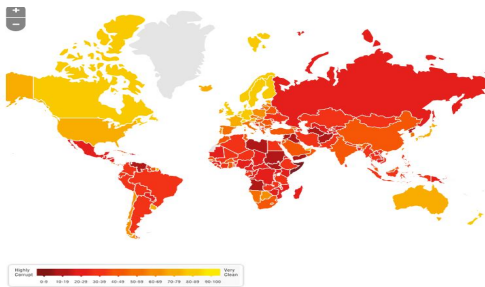


* As a measure of corruption risk

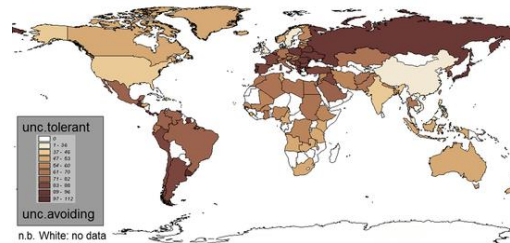
Source: <http://www.transparency.org/cpi>. 2018 Transparency International.

Corruption Risk is correlated with Culture

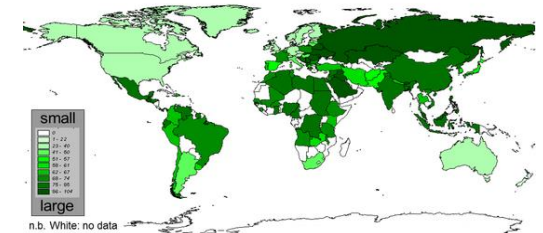
CPI



Hofstede's Uncertainty Avoidance



Hofstede's Power Distance



- 65% of the CPI is explained by four of Geert Hofstede's cultural dimensions. Each dimension is significant at the $< .05$ level. ¹
- Dimensions: Power Distance, Uncertainty Avoidance, Individualism, Masculinity according to the 6D model of national culture by Dutch professor Geert Hofstede.

¹ Source: Huber, Dennis: Culture and Corruption: Using Hofstede's Cultural Dimensions to Explain Perceptions of Corruption. 2001. <https://www.researchgate.net/publication/274195256> [Accessed: 7.03.2022]; see also: Halkos, George and Tzeremes, Nickolaos: Investigating the cultural patterns of corruption: A nonparametric analysis. 2011. https://mpr.ub.uni-muenchen.de/32546/1/MPRA_paper_32546.pdf [Accessed: 7.03.2022]

Hofstede's culture dimensions in a nutshell

Power Distance:

Society accepts and expects unequal power distribution.

Low ← Power Distance (PDA) → High

Collective ← Individualism (IND) → Individualistic

Low ← Uncertainty Avoidance (UAD) → High

Feminine ← Masculinity (MAS) → Masculine

Short-term ← Long-Term Orientation (LTO) → Long-term

Restraint ← Indulgence (IDG) → Indulgence

Masculinity:

Competitiveness & assertiveness, as opposed to warmth & emotionality

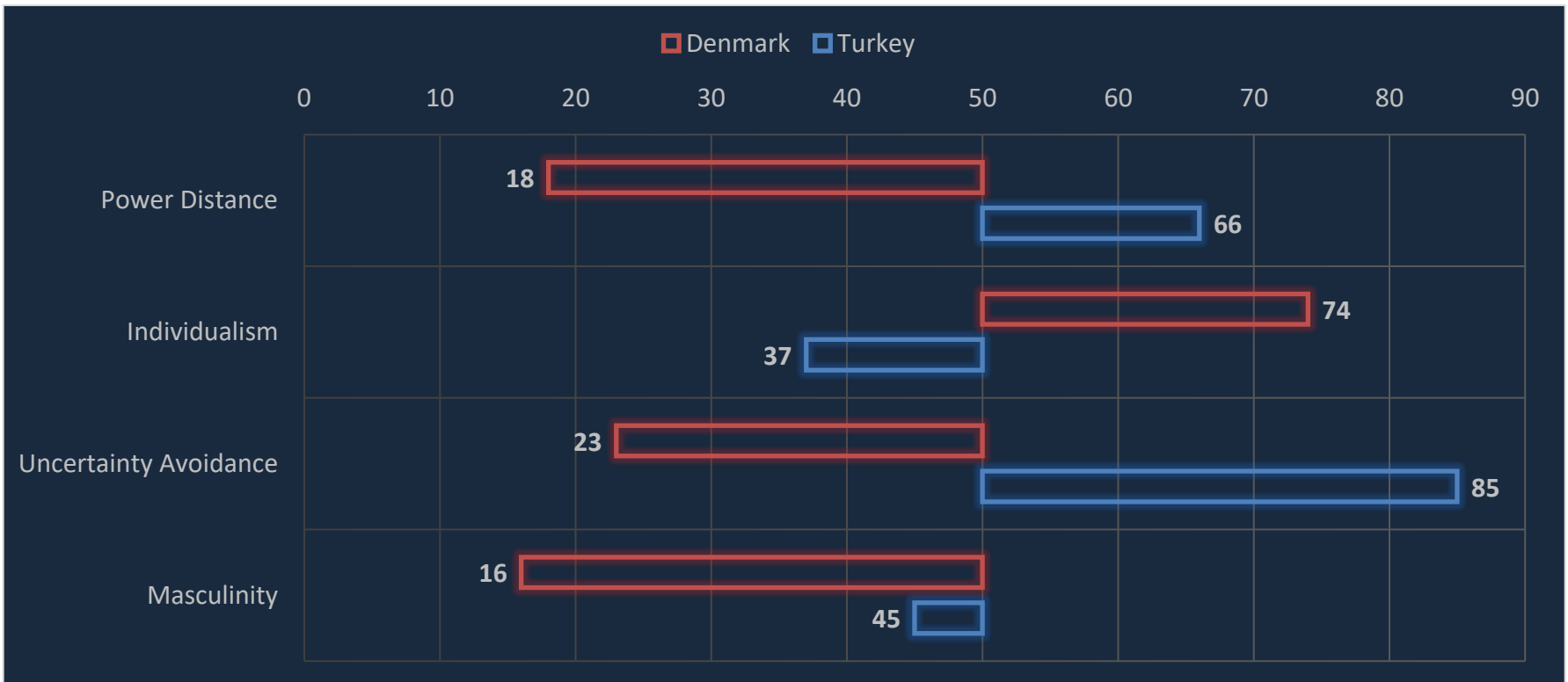
Individualism:

People feel independent, as opposed to being interdependent

Uncertainty avoidance:

A society's tolerance for uncertainty and ambiguity.

Hofstede Culture profile of Turkey vs. Denmark



All four cultural dimension preferences lie on diametrically opposite side of the spectrum. This bears a huge potential for different and *mis*-understandings.

Observations from Turkey

Power Distance: Not everyone is equal



- PDI: the extent to which the less powerful members ... within a country expect and accept that power is distributed unequally.
- Value system of the *less* powerful members of society.
- Leadership can only exist as a complement to 'subordinateship'. Authority only survives where it is matched by obedience.

Observations from Turkey

Uncertainty avoidance



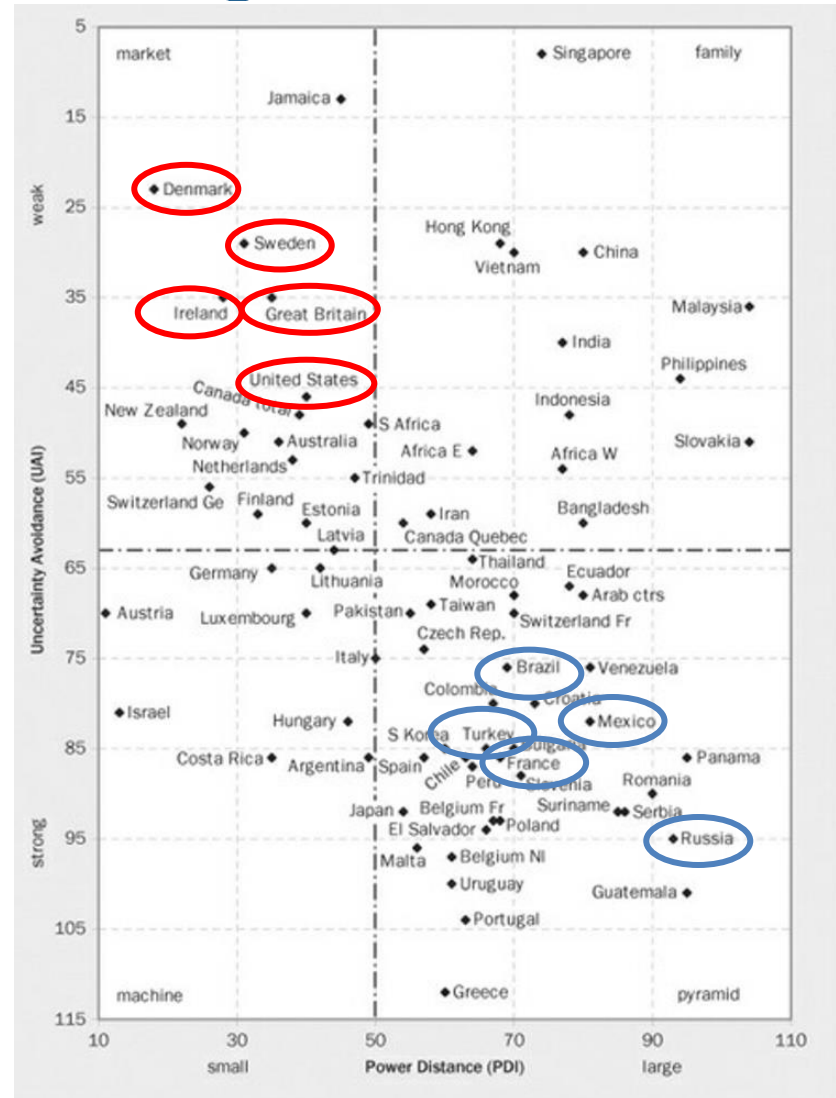
- Anxiety and distrust in the face of the unknown, **wish to have predictability**
- Having rules reduces ambiguity; is not the same as following the rules; or enforcing rules
- Need to know consequences in case of rule violation
- But: Emotional need for many **formal laws and informal rules**

Observations from Turkey

Uncertainty avoidance



Clustering countries: PDI x UAI



So why is this again relevant for effective Ethics & Compliance?

National culture has to do with VALUES and strongly affects (local) organizational culture (PRACTICES), decision-making and the level of Human Risk

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graph TD; A["National culture has to do with VALUES and strongly affects (local) organizational culture (PRACTICES), decision-making and the level of Human Risk"] --> B["Hence, better understanding national culture(s), e.g. using cultural models, we can..."]; B --> C["... identify challenges and opportunities for better managing Human Risk in different countries (and drive a more effective E&C Program)."]; style C fill:#2e6b9c,color:#fff
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Hence, better understanding national culture(s), e.g. using cultural models, we can...

... identify challenges and opportunities for better managing Human Risk in different countries (and drive a more effective E&C Program).

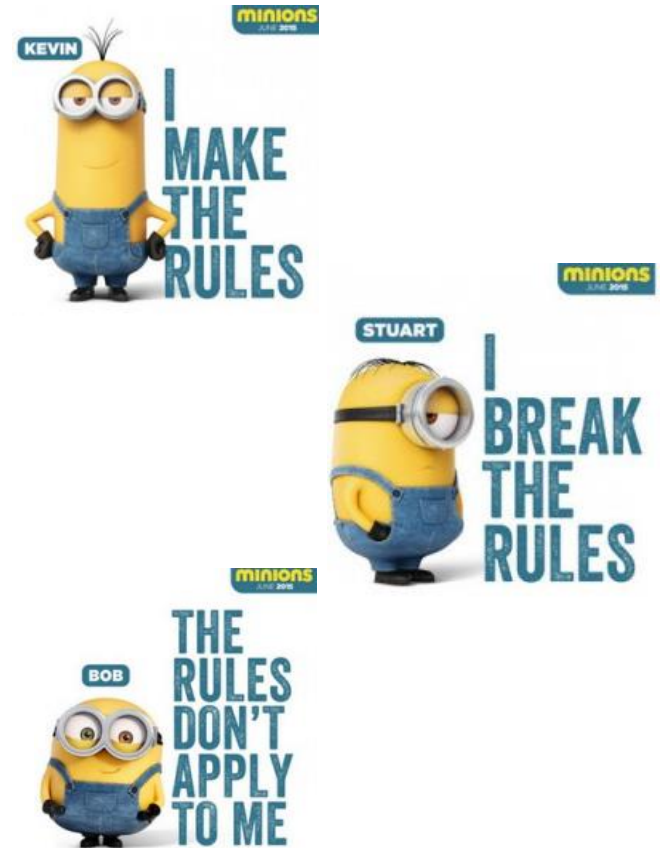
Leveraging the Hofstede model for a more effective E&C program – what has worked in TR?

- **Power Distance:** Tone from the top (person) carries a lot of weight
 - Personalize and link the culture, values and rules to the top local leader (loyalty & authority).
 - Paternalistic leadership generates trust & loyalty, psychological safety; but beware of favoritism & nepotism
 - Personalized contact for Speak Up (not anonymous – personal trust and assurance of non-retaliation)
- **Collectivism:**
 - Utilize family terms – Compliance team as “family member”
 - Social context for compliance trainings (e.g. “Culture Café”, Breakfast Meeting)



Leveraging the Hofstede model for a more effective E&C program – what has worked in TR?

- **Uncertainty avoidance:**
 - High level principles, abstract codes alone don't work!
 - People want and need rules, but make them clear, short, simple and concrete (prepare detailed examples)
 - Having rules gives sense of security but doesn't mean following the rules
 - Finding loopholes is considered smart, not wrong!
 - Managers like to micro-define rules (dress codes, rules for shaving ...)
 - Explain controls and sanctions mechanisms; control and sanction transparency: visibly, clearly, fairly, otherwise rules are ignored
 - Be fair and consistent.



Conclusion



Culture eats Strategy for breakfast...

- Peter Drucker

... and Compliance as an appetizer before lunch.

- Michael Kuckein

Curious? Look up more countries

<https://www.hofstede-insights.com/country-comparison/>

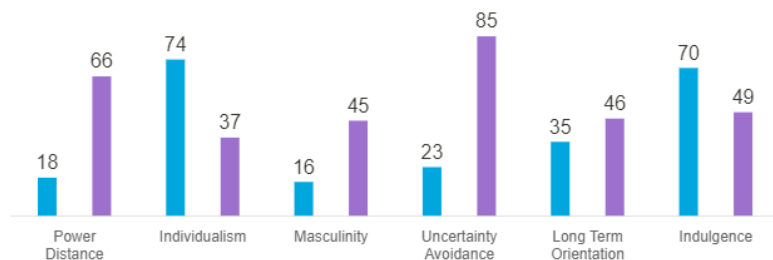
HOME › COUNTRY COMPARISON

COUNTRY COMPARISON

Select one or several countries/regions in the menu below to see the values for the 6 dimensions.

Go further, discover our cultural survey tool, the **Culture Compass™** or join our **open programme Introduction to Cross-Cultural Management** or download the App (**Google Play**, **App store**).

Denmark × Turkey × |



* estimated

Denmark Turkey

WHAT ABOUT TURKEY?

If we explore Turkish culture through the lens of the 6-D Model®, we can get a good overview of the deep drivers of Turkish culture relative to other world cultures.

POWER DISTANCE

This dimension deals with the fact that all individuals in societies are not equal – it expresses the attitude of the culture towards these inequalities amongst us. Power Distance is defined as **the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally.**

Turkey scores high on this dimension (score of 66) which means that the following characterises the Turkish style: Dependent, hierarchical, superiors often inaccessible and the ideal boss is a father figure. Power is centralized and managers rely on their bosses and on rules. Employees expect to be told what to do. Control is expected and attitude towards managers is formal. Communication is indirect and the information flow is selective. The same structure can be observed in the family unit, where the father is a kind of patriarch to whom others submit.

...

Thank you!



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