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BUILDING A CULTURE OF INTEGRITY

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*The origin of all conflict between me and my fellow-men is
that I do not say what I mean, and I do not do what I say.*

—Martin Buber

Abstract

The 2019 scandal in U.S. Ivy League schools, where wealthy parents bribed officials at Yale, Stanford or Georgetown to secure access for their offspring, is only the tip of the iceberg. In a complex world of cyberspace, global markets and virtual organizations, the temptation to cut corners is everywhere—leaders in all walks of life can get away with cheating, lying or corruption. (Corruption has been around ever since there has been money. That doesn't mean money is bad; it just means people get a bit weak-kneed around it.) What many leaders fail to realize: The way to gain real power is not through a big job title, wealth, authority or the corner office, but through integrity—defined here as honoring your word and leading by example. Close the gap between word and deed, and between tomorrow's vision and today's action. It is all about walking the talk—an unadulterated match of words and deeds. This article, based in part on the author's books *The Rabbi and the CEO* and *Strategy-In-Action*, goes beyond individual integrity and explores how leaders and organizations can build cultures and systems of integrity. The article offers cases of best practices from Microsoft to Xerox, and worst practices from Enron to Dieselgate.

Keywords: ethics, integrity, leadership, management, culture

*The illegal we do immediately,
the unconstitutional takes a little longer.*

—Henry Kissinger

Throughout the 1990s, *Fortune* magazine and *The New York Times* were full of praise for one company. Here are the company's core values from its 1998 annual report:

“RESPECT: We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness, and arrogance don't belong here.

“INTEGRITY: We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, we won't do it.

“COMMUNICATION: We have an obligation to communicate. Here, we take the time to talk with one another... and to listen. We believe that information is meant to move and that information moves people.

“EXCELLENCE: We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.”

Can you guess which company this was? I give you a hint: The company is out of business now. It was Enron.

These values sound beautiful; they made zero difference, since the fish stank from the head. To put it nicely, Enron's top managers didn't bother to live by them. (And perhaps just as unsettling as Enron's behavior itself is the fact that respected news organizations like the *Times* and *Fortune* could fall for Enron's lip-service.)

Take just the value about communication ("...Here, we take the time to talk with one another... and to listen...") When whistleblower Sherrone Watkins took her "obligation to communicate" seriously enough to come to Jeffrey Skilling, the CEO did not live up to that core value. The gulf between word and deed proved too wide. Enron is history.

Fast forward to today: In May 2019, US actress Felicity Huffman pled guilty to bribery. In tears, the Hollywood star of "Desperate Housewives" fame confessed in a Boston court that she had paid SAT test officials \$15,000 to "improve" her daughter's exam results and get her into an elite university. She was not alone: Dozens of prominent and/or wealthy parents of college students had bribed admission officers to ease their offspring into Yale, Stanford or Georgetown. Some paid stand-ins to take the university admission exam instead of their son or daughter; others bribed sports coaches to certify that the applicant was an outstanding athlete.

The Unique Power of Integrity

It was shenanigans like these that, a generation earlier, had prompted the philosopher Abraham Heschel to ask the essential question: "How am I going to keep myself clean? The most important problem which a human being must face daily is how to maintain one's integrity in a world where power, success, and money are valued above all else? How to remain clean amid the mud of falsehood and malice that soil our society?"¹ Heschel's contemporary Martin Buber answered: "There is no way out but the crucial realization: Everything depends on myself, and the crucial decision: I will straighten myself out." (Buber, 2002).

The issue is not that people succumb to temptation. We all do. Demanding that we always resist and do only good is too much to ask. The problem arises when people, above all leaders or public officials, say one thing and do another. The poster boy of this gap between word and deed is former New York Governor Eliot Spitzer. A brainy kid who graduated from Princeton and Harvard Law School, the ambitious Spitzer rose to national prominence as an avenging state attorney general who hunted down Wall Street malefactors, exploiters of immigrant workers, and mobsters with moralistic fervor. Everywhere the self-styled defender of the American investor found "betrayals of the public trust" he called "shocking" and "criminal." In 2007, Spitzer swept into office pledging to usher in a new era of clean government; a year later, in March 2008, two days after having been linked to a prostitution ring, he announced his resignation. The stunning development came after authorities and court documents showed that Spitzer, a father of three teenage girls, had been caught on tape arranging a liaison with a high-end call girl, and may have spent as much as \$80,000 on prostitutes. Ironically, one of the industries Spitzer prosecuted most aggressively had been prostitution services.

Hence in the framework of this essay, integrity is not essentially an ethical or moral phenomenon. It is simply the congruence between what you say and do, in both great and small things. If I say I will have the report to you by 5:00 P.M., you will have it on your desk by no later than 5:00 P.M.; and if I see that I can't *keep* my word, I can still *honor* my word by letting you know it will be late and making a new commitment. That is integrity: making your word count.

In this sense, integrity is directly correlated to performance (Erhard, Jensen, & Zaffron, 2007). A good metaphor for integrity is a bicycle wheel designed so flawlessly that its performance is flawless too. Or take a piece of software: If the software is programmed

100 percent consistent with its specifications, it will run smoothly and perform without a hitch.

Integrity is something nobody can take away from you; even if they take all your property, and even if someone they cut off one of your limbs, your integrity stays with you. (Stephen Hawking or a Christopher Reeves did not need command of their bodies for their high performance as leaders.) Integrity is the capital of leaders.

We saw the power of integrity in the Hollywood film “The Insider” with Russell Crowe and Al Pacino.² In 1993, Jeffrey S. Wigand, a high-salaried senior manager at the Brown & Williamson tobacco company in Louisville, Kentucky, owned by British American Tobacco, got the pink slip. “I had all the trappings of a successful corporate executive,” he said. In the blink of an eye, he went from \$300,000 a year plus stock options to a high-school teacher’s salary of \$30,000. His marriage fell apart when his wife couldn’t deal with the pressure. He attributed his dismissal to his having resisted his employer’s use of a potentially dangerous tobacco additive; he was warned to abide by the company’s confidentiality agreement or face lawsuits and the potential loss of his family’s medical benefits. He formed his own foundation, Smoke-Free Kids, to teach children about the dangers of tobacco. The foundation has a staff of one: him. But he got one thing out of the ordeal: He can look straight in the mirror without averting his eyes. “I am at peace with myself. I have a good name now. It’s a very good name and I protect it very much.” He added: “My name stands for integrity. I can’t describe to you what it is like to have that feeling.”

One of the great teachers of integrity was Mohandas Gandhi; and he taught it by personal example. The story goes that a woman and her young son traveled for many days—by train, by rickshaw, by bus, and on foot—to see the Mahatma at his ashram. Once they stood before Gandhi, the woman begged, “Please, Mahatma. Tell my son to stop eating sugar.” Gandhi was silent for several moments. Finally he spoke. “Bring your son back in two weeks.” The woman was puzzled, but she did not have the stomach to question the great Mahatma. She thanked Gandhi and said she would do as he asked. She and her son traveled all the way back to their village. Two weeks later they undertook the entire trip again—by train, rickshaw, bus, and foot. When the pair stood before him again, Gandhi bent down, looked the child straight in the eye and said, “Stop eating sugar.” Grateful but bewildered, the woman asked, “Why did you tell me to bring him all the way back? You could have told him the exact same thing two weeks ago.” Gandhi replied, “Two weeks ago, *I* was eating sugar.”

Systemic Corruption: Dieselgate

It is one challenge to lead by example and live a life of integrity as an individual; it is quite another to build or restore integrity in a company or institution. Take the Volkswagen emissions scandal (Wikipedia, n.d.) (also known as Dieselgate) that began in September 2015 when the U.S. Environmental Protection Agency (EPA) issued a notice of violation of the Clean Air Act to German automaker Volkswagen Group. The agency had found that the company had intentionally programmed turbo-charged direct injection (TDI) diesel engines to activate their emission controls only during laboratory emissions testing. This tampering caused the vehicles’ NO_x output to meet U.S. standards during regulatory testing, but emit up to 40 times more NO_x in real-world driving. Volkswagen deployed this programming software in about eleven million cars worldwide, including 500,000 in the United States, in model years 2009 through 2015.

The EPA’s charge: Volkswagen had insisted for a year before the scandal broke that discrepancies were mere technical glitches. Only after being confronted with the evidence to the contrary did Volkswagen fully acknowledge that it had manipulated the vehicle emission tests.

The first sign that the company might be ready to come clean reportedly came on 21 August 2015 at a conference on green transportation in California, when an unnamed company representative approached the director of the EPA's Office of Transportation and Air Quality and surprised him by informally admitting that the company had been deceiving regulators.

Volkswagen's CEO Martin Winterkorn said: "I personally am deeply sorry that we have broken the trust of our customers and the public." Winterkorn, at the helm of Volkswagen since early 2008, attributed the wrongdoing to "the terrible mistakes of a few people."

Volkswagen Group of America CEO Michael Horn was more direct than Winterkorn, saying, "We've totally screwed up." Horn added, "Our company was dishonest with the EPA, and the California Air Resources Board and with all of you."

The fallout was both swift and sweeping. Winterkorn initially resisted calls to step down, but finally resigned as CEO in late September 2015. Other senior managers, including the head of brand development Heinz-Jakob Neusser, Audi research and development head Ulrich Hackenberg, and Porsche research and development head Wolfgang Hatz, were suspended. Volkswagen's stock price fell by one-third in the days immediately after the news broke.

The automaker took action to save its reputation, but too little too late. More than half a year after the outbreak of the scandal, it announced plans in April 2016 to spend €16.2 billion (US\$18.2 billion) on rectifying the emissions issues, and planned to refit the affected vehicles as part of a recall campaign.

In April 2017 a US federal judge ordered Volkswagen "to pay a \$2.8 billion criminal fine for rigging diesel-powered vehicles to cheat on government emissions tests." In May 2018 Winterkorn was charged in the United States with fraud and conspiracy.

Regulators in multiple countries began to investigate Volkswagen. In an unusual move already late September 2015, Switzerland acted much more swiftly and decisively than Volkswagen did: The country banned sales of Volkswagen diesel cars altogether. This marked the most severe step taken by a government in reaction to Dieselgate.

These were only the legal and commercial consequences for Volkswagen. The social and human costs would last for years to come. A peer-reviewed study published in *Environmental Research Letters* estimated that approximately 59 premature deaths would be caused by the excess pollution produced between 2008 and 2015 by vehicles equipped with the defeat device in the United States, the majority due to particulate pollution (87%) with the remainder due to ozone (13%). The study also found that making these vehicles emissions compliant by the end of 2016 would avert an additional 130 early deaths (Barrett et al., 2015). Such is the difference integrity (or the lack thereof) makes in organizations. Corporate culture matters.

Does the Company Walk the Talk?

On Volkswagen's website, the core value that tops the list is "Integrity: We always strive to do the right thing. Our commitment to the truth is unwavering, both in actions and in words." (Galpin Volkswagen, n.d.).

But do the managers and workers live by these organizational values in their day-to-day actions, or merely pay lip service? Do managers and employees do the right thing when it costs them something—for example giving up stellar sales figures or looking good in the eyes of the stock market? Do they take responsibility, or do they pass the buck? Do they take risks and show entrepreneurial spirit, or do they wait for someone else to stick his or her neck out? Do they communicate openly, or gossip excessively? (For example, Microsoft created a "clear escalation" rule that explicitly forbids talking about a problem with someone who

cannot do anything about it.) Do they say “I” or “we” (Johnson & Johnson discourages the use of the selfish “I” in communications)?

A company that can tell a story about the power of values is Xerox. One of the great success stories in American corporate history, the pioneer of photocopiers began to falter in the 1990s as high costs translated into uncompetitive prices, and by 2001, Xerox saw its stock price plunging 92 percent in less than two years, decreasing cash, a worsening market position, and an SEC investigation. Some pundits questioned whether Xerox would survive as an independent company. Anne Mulcahy, who had not even made the initial list of CEO candidates, caught the attention of the board with her passion and dedication for the company and its culture. When Mulcahy became Xerox CEO in 2001 (and chairman in 2002) after working her entire career deep inside the corporation, she refused to destroy the company in order to save it. (“I am the culture,” she said. “If I can't figure out how to bring the culture with me, I'm the wrong person for the job.”) Churchillian in her belief that Xerox people could prevail against all odds, she refused to capitulate, refused to sell out, refused to acknowledge the inevitability of defeat. From losses of more than \$300 million in 2000 to 2001, she righted the company to more than \$1 billion in 2007 profits. (Collins, 2008). Her successor Ursula Burns, at Xerox since 1980 when she had joined as a mechanical engineering summer intern, kept on with the same core values. Today, with John Visentin as vice chairman and CEO, Xerox, founded in 1906, is one of the rare companies founded in the early 20th century that are still on the Fortune 500 list.

The Hunger Project: Basic Principles

One of the most skillful organizations at cultivating a strong corporate culture is The Hunger Project, where some 100 staff members worldwide manage to empower over 60,000 local volunteer leaders in some 27 countries worldwide. This makes for huge leverage and return on investment: One dollar stretches far when you have such minimal overhead. Such leverage is essential given The Hunger Project's ambitious mission: to identify and provide whatever is missing for the sustainable end of chronic hunger worldwide. Here are the organization's “basic principles of being on staff”³ that serve to make crystal-clear what it means to work there:

Basic Principles of Being on Staff

- **Vision:** To always see a future that one stands for, that gives meaning and purpose to one's actions.
- **Commitment:** To work out of a deep personal commitment to the end of hunger and to the unique mission, mandate and focus of The Hunger Project in achieving that goal.
- **Privilege:** To possess the spirit of contribution and service, with a deep appreciation for the privilege it is to do the work of The Hunger Project.
- **Responsibility:** To be personally and individually responsible for the whole Hunger Project. When someone meets one of us, they are meeting someone who represents and stands committed to the entire organization.
- **Teamwork:** To work as one, unified team, as one strategic organization with one strategic intent and one set of objectives.
- **Empowerment:** To empower each other; to be committed to each other's success.
- **Alignment:** To be able to create a place to stand together to see what's wanted and needed, and from there to co-create our work out of alignment, rather than as a compromise among differing points of view.

- **Flexibility:** As members of a strategic organization, to be obsessed with achieving our mission, and totally unattached to any particular pathway to achieving it.
- **Communication:** To be committed to complete and honest communication that is clear, straightforward and timely.
- **Integrity:** To be committed to the power of the truth, to our own integrity and to the total integrity of The Hunger Project.
- **Breakthroughs:** To possess the courage and determination to achieve breakthroughs rather than mere incremental advances. To not sell out to circumstances, and to achieve “unreasonable” results on a regular basis.
- **Breakdowns:** To declare breakdowns when they occur—to have the courage, responsibility and discipline of always delivering the “bad news first.”
- **Professionalism/Complete staff work:** To be committed to doing complete staff work—work characterized by excellence, impeccability and professionalism.
- **Intention:** To have clear intentions, and stay true to our purpose line in our work.
- **Methodology:** To utilize and master one, unified “Hunger Project” style and technology of producing results, one culture, one spirit of excellence and momentum of accomplishment.
- **Workability:** To create a clean and empowering physical environment for our work—one that pulls for clarity and productivity. To not tolerate unworkability.
- **Self-reliance:** To be self-reliant. To be responsible for being informed and getting what we need to do our jobs.

Changing the Culture

With the right culture, people can overcome huge odds. In 1965 Nucor Corp., then less than a hundredth the size of the market leader Bethlehem Steel, was on the verge of bankruptcy. Faced with a hodgepodge of unrelated businesses and deteriorating debt ratios, the board made a move of desperation. It turned the company over to a division manager named Ken Iverson, just 39 at the time. “Here, you're too young to know any better,” the board seemed to tell Iverson. “You take it!”

Iverson had run Nucor's only successful division, where he'd built a weird culture of crazed productivity making steel joists. After jettisoning the worst divisions, he began to build, and build, and build. He and his team backward-integrated into making raw steel, creating a mini-mill, and discovered that Iverson's culture could be harnessed to produce the lowest-cost steel in America. Step by step, year by year, Iverson's team added capacity, eventually breaking onto the Fortune 500 in 1980 at rank 481. In a brutally competitive steel industry, Nucor kept a solid No. 151 ranking on the Fortune 500, with 41 years of consecutive profitability. As a testament to the durability of Nucor's culture, and its respect for its people, the annual report continues a long-held tradition of naming every Nucor employee, more than 18,000 individuals.⁴

Like Iverson, at times you must go against the prevailing culture that has all the votes. While facilitating a leadership workshop with the government of Kazakhstan, I asked the prime minister right at the outset, “Do you realize that none of the people in this room tell you the truth?” The heads of several cabinet ministers jerked up in disbelief at the open challenge to what was evidently a taboo. I had asked the question on purpose—to expose a sacred cow in the room. I fixed my gaze straight into the prime minister's eyes and pressed on: “Do you realize that they tell you only what *they think* you want to hear?”

It is the same with many CEOs: They cannot count on their top managers to tell them the naked, unvarnished truth. My questions were designed to wake the participants up to an unwritten rule of behavior that nobody questioned anymore. That is culture: Like the

wallpaper that people don't see anymore after a while, it is a set of assumptions and behaviors that are challenged rarely if ever, typically implicit rather than explicit, and seldom even conscious. If asked about them, people would shrug and say, "This is simply the way we do things around here."

How do you change the culture? A good start is to match the company's declared and codified values against real day-to-day behaviors, which have grown and persisted over time. Culture is a result of history. The CEO of one Swiss telecom I worked with found that the company originally specialized in call centers and had been, from its founding in 1984 through 1998, a virtually exclusive supplier to the Swiss PTT (Post, Telephone, Telegraph), a national agency. This past condition had made for a deeply entrenched culture with the following symptoms: an employee mentality of a big government bureaucracy (weak customer service, weak responsibility or initiative, weak cost discipline and a palpable lethargy in certain departments); a "survival syndrome" in certain managers who had survived two takeovers by a larger company, and fears of yet another merger; and a lack of confidence among employees in the viability of the company (management had tried change before and it hadn't worked). But there were also many positive aspects of the company's culture, for example its deep domain expertise; a significant client base; its maintenance and supplier contracts already in place; and esteem by the market. A key success factor of culture change is not to throw the proverbial baby out with the bathwater, but instead to distinguish between the culture you want to jettison and the culture you want to keep.

Culture Eats Strategy for Breakfast

Louis Gerstner, widely credited with turning around IBM before retiring as chairman and CEO in 2002, once said that "Fixing the culture is the most critical—and most difficult—part of a corporate transformation."⁵ Gerstner knew that culture can be the most insidious enemy of change—that, as management theorist Peter Drucker put it, culture eats strategy for breakfast any day. And you cannot just change the people—culture is sticky. That's why organizational change is so difficult. It's a vicious cycle: Behaviors, and at their source attitudes and mindsets, are deeply embedded and reinforced every day. If there is a silo mentality, for example, then most employees, most of the time, will take actions matching that silo mindset, from ingratiating themselves with their bosses to building personal fiefdoms to keeping vital intelligence from their colleagues in other departments.

A company might even boast multiple cultures. In one global corporation that resulted from several cross-border mergers, the private bankers were mostly Europeans in Zurich—more risk-averse, more reserved, more frugal and tight-fisted, more hierarchical—while the investment bankers were mostly Americans in New York City—more risk-friendly, more testosterone-driven, more free-wheeling, more participatory. This led to serial misunderstandings and culture clashes.

How do you decode the current culture, and how do you align it with its declared core values and strategy? In 2002, Microsoft's then-CEO Steven A. Ballmer sent a 2,674-word message to Microsoft's 50,000 employees worldwide. The message was about values like integrity, honesty and accountability. Ballmer wrote, "starting with the upcoming August review, every employee will have a formal discussion of how they are doing on values with their managers." Nice try; but how do you enforce such a policy?

There were several things Ballmer might have done. One good question to ask, said Linda Klebe Trevino, a professor of organizational behavior at Pennsylvania State University, is "what happens to top performers who *don't* live by those values?" (Seglin, 2006). If you are serious about values, you have to rig the incentives such that people live them (and against people who don't). Second, whenever you hire new people, stress values like honesty and walking your talk in job postings and interviews. Have not only your HR

people, but your company's role models interview key candidates. If the best people in the firm demonstrate that integrity matters to them, new people will notice and emulate them. Be a leader in the business community and set yourself apart from the pack that stops at mere legal compliance: Voluntarily adopt some of the corporate governance proposals floating around, for example rotating your outside auditors every few years, having only outside directors sit on the company's compensation and audit committees, and treating all stock options as expenses in your financial statement. Above all, remember that either integrity, like all other values, trickles down from the top; or "the fish stinks from the head," as management consultant Nicholas Wolfson likes to put it. Like Gandhi above, you need to lead by example. If you want to instill certain values, start by acting the way you'd like your work force to act.

Communicate or Die: Human Barriers to Culture Change

One big irony of culture change is that the very people who have the most power to cause change—the C-level managers at headquarters—happen to be also the people who have the strongest incentive to keep the status quo in place. It is a logical chain: The more you are invested in the way things are now, the more you have to lose from change, and the more you want to avoid change.

A second problem is that many CEOs rarely get honest feedback from their insular circle of advisors. Even if a CEO's senior people dare speak unvarnished truth to power, and even if they don't get penalized or singled out or excommunicated for calling a spade a spade, the CEO may not care to listen and instead merely reconfirms his or her already-existing bias. And if the CEO is open to collaborative leadership, yet another problem crops up: getting leaders with the ethical compass to do what's right instead of doing what's expedient.

A third problem is that finding the truly valuable players has become harder. Only three percent of companies surveyed by Corporate University Xchange felt they have the ability to find the leadership talent they need. The other 97 percent of surveyed organizations said they are concerned about their current leadership bench strength or their ability to develop the leadership talent they need to meet their growth objectives. (81 percent said they are "significantly concerned.") (Corporate University Xchange, 2007) "In the past it was relatively easy to tell who in marketing developed the best product plans, or who in sales had the best results," said Brian Schipper, senior vice president of human resources at Cisco Systems. The search for collaborative leaders, who know how to reach beyond their own skills to seek assists across the organization, gives the tech company new headaches as it looks for implementation talent. "It is now a lot more subtle, because you are looking for individuals who are getting results not only in their own areas of expertise but working collaboratively with others in other functions."⁶

One way to build the desired culture is to rig the incentives that will pull for the right being and actions. Incentive systems can take many forms. You have to stand in the shoes of your people and ask yourself, what would make, for them, doing the right thing irresistible? To lure Brett Shanaman from an old-economy company, WetFeet.com agreed to sponsor his hobby: racecar driving. Soon after Kevin Vela had joined iThought.com, he got the key to a company car for the weekend, just for completing a project ahead of schedule. The "car" was a Hummer. LoweringBills.com rewarded workers not only with stock options, but also by paying their recurring bills for one month and treating them to skydiving trips.

But "Gimmicks don't make good people stay," said Dimitri Boytan, a co-founder and later CEO of Hotjobs.com. "Growth and opportunities are what makes the environment work."⁷ The mismatch comes when designers have not thought through all the consequences of an incentive system. One frequent pitfall is that salespeople may maximize earnings by

taking the company into unplanned and risky shenanigans. Many a company has seen its sales growth scuttled or its strategic focus evaporate due to inadvertent results from its sales incentives. The irony is that this often occurs because the sales force is doing *exactly* what the incentives compelled them to do. The compensation system should be designed to track the sales behaviors and results the company wants to reward, and to calculate the salesperson's commissions. Good salespeople study the system thoroughly to understand how they can achieve the highest payout. Compensation plans can be complex, bundling together incentives and behaviors the company encourages and makes the translation into maximal personal income hard. We tend to forget the simple rule: People tend to do exactly what they are enticed to do. It is incumbent on the company to ensure that the actions and results it promotes with its incentives are in fact what it *wants* to achieve; mismatches are all too common. For example, if asset managers are compensated not based on maximizing their clients' wealth, but with bonuses from their bank based on maximizing the bank's profits, such adverse incentives eventually lead to unintended outcomes, if not a financial crisis.

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² *New York Times*, 15 October 1999, A24.

³ The Hunger Project, "Basic principles of being on staff," Unpublished ms., May 1993.

⁴ *Ibid.*

⁵ Cited in William G. Petersen, "Strategic Learning: A Leadership Process for Creating and Implementing Breakthrough Strategies," Columbia Business School, 2004.

⁶ Interview in Nasdaq, "The Power of Collaborative Leadership," Advertorial, *Fortune Small Business*, September 2007.

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