



**GOVERNING FOR THE
COMMON GOOD:
TRANSFORMING
ORGANISATIONS USING
SUSTAINABLE LEADERSHIP
AND SUFFICIENCY THINKING**

**GOVERNING FOR SUSTAINABLE
HUMAN DEVELOPMENT AND THE
COMMON GOOD**

Immersion Tour and Roundtable

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Rome

Agenda

- Trust exercise
- The Dieselgate crisis
- Governance in Germany
- Board leadership
- Sufficiency thinking – rebuilding a nation
- Culture: integral ecology in an organisation
- Sustainable “Honeybee” Leadership practices
- Answers to trust exercise
- Trust appraisal and (re)building trust

Trust exercise

Trust tends to vary from:

- individual to individual
- organisation to organisation
- country to country

Let's get a sense of how you all think about the role of trust in these different situations.

Trust basically refers to the willingness to be vulnerable under conditions of risk and interdependence

(Mayer, Davis and Schoorman, 1995).

Complete the survey sheet by ticking whichever box you think applies best to the following 8 scenarios.

I'll collate them and we can discuss them later in this session.

Dieseldate – VW emissions scandal 2015

Das Auto



Das Problem

VW engineers installed software in diesel cars that defeated US emissions standards

Issues: eg public health, illegal in USA, unethical...

Dieselpgate – VW emissions scandal 2015



A governance failure of:

The VW Group ?

The culture ?

The leadership ?

The Board & its structure ?

All ?

About the VW Group (=Volkswagen AG)

Since 2016 largest auto maker in the world

HQ in Lower Saxony, Germany

Employees (2018): 655,700

Sales (2018): 10.8 million vehicles

Revenues (2018): 235.8bn euros

Operations in about 150 countries

100 production facilities across 27 countries

Owns ca 340 subsidiary companies

Listed, but basically majority owned & controlled by the Porsche & Piëch families (indirectly)

VW voting rights as at Dec 31, 2018

52.2% Porsche Automobil Holding SE, Stuttgart

20.0% State of Lower Saxony, Hanover

17.0% Qatar Holding

10.8% Other

* All figures are shown rounded

As at March 31, 2019, Porsche Automobil Holding SE holds 53.1% of voting rights.

VW structure (AR 2018)

Passenger cars	Commercial vehicles	Power engineering	Financial services division
VW	VW	MAN Power Engineering	Dealer & customer financing
Audi	Scania	MAN Power engineering	Leasing
SKODA	MAN		Direct bank
SEAT			Insurance
Bentley			Fleet management
Porsche			Mobility offerings
Bugatti			
Lamborghini			

Dieselgate – VW culture

Prevailing culture

Concepts of values and norms were not widely discussed at VW.

Christian Scholz. 2016. Volkswagen verpatzt den Kulturwandel. *Manager Magazin*, 25 January.

- technical culture
- outcome-driven
- perfectionist culture
- negative public consequences for failure
- company must meet its goals

Dieselpgate – VW culture

Questioning the culture

We have to “assume something went wrong with VW's culture such that immoral behaviour became acceptable.”

(Robert Armstrong, editor, *Financial Times*, 2017, Jan. 14, p. 9)

- Why did a group of people at VW think it ok “to go on the dark side”?
- Why was the risk of being caught no deterrent?
- Why did no one stop them?

Dieselpgate – VW leadership

Variously described as:

- autocratic
- fear-based
- top-down
- complex hierarchy
- extreme deference to authority
- lacking diversity
- profits over sustainability
- missing moral ethic

Governance model in Germany

2-tier boards & co-determination (Mitbestimmung)

Partly in response to the GFC,

Government Commission adopts German Corporate Governance Code

Supervisory Board (Aufsichtsrat)

- for more than 500 employees, 30% of board members to be workers
- for more than 2000 employees, 50% of board members to be workers
- Chair (almost always a shareholder rep) has casting vote

Management Board (Vorstand)

Primarily applies to listed companies, others are encouraged to follow code.

Governance model in Germany (ctd)

German code uses terms:

- “shall” (negotiable, disclosure required), and
- “suggest” (departure permitted, disclosure not required)

Alternative to German company:

Can adopt a “European Company” structure

Societas Europaea (SE); 1-tier system with Administrative Board

Dieselgate – VW governance

Board structures at VW today



- Infighting
- Old Boards lack diversity
- Are new Boards better?

Governance issues in the VW Group

- Family-controlled company
- Board “fractious” – not harmonious,
- Board members were not independent
in familial relationships with one another
- Porsche/Piëch families & unions made a united front
- “VW System” – a structure in which company politics
can block real change
- The VW System fostered a dysfunctional corporate
culture with sole focus on profitability
- Who was the Board accountable to?

Based on Merenda, M. & Irwin, M. 2018. Case study: Volkswagen’s diesel emissions control scandal. *Journal of Strategic Innovation & Sustainability*, 13(1), 53-62.

Discussion - Could this happen to you?

1. What are the key issues at VW?
2. Are there any parallels in your world?
3. What should VW do next?

Dieselgate – moving forward

What did VW promise to do?

1. Restructure Board
2. Reorient strategy
3. Culture change

Strategy: CEO letter in 2018 AR:

We therefore align our business to the following three pillars:

1. digitalization,
2. electrification &
3. shareholder value increase.



VW CEO Herbert Diess

Culture: Given its governance system & corporate culture, can VW ever change?

Board leadership

Upper Echelon Leadership

- Membership
- Diversity
- Leadership style
- Processes eg Decision making style
- Board is responsible for leadership of the organization

Defining our terms 1:

Sustainable governance

“Sustainable”

Brundtland, resilience, longevity, ongoing viability

More than “do no harm”

“Governance”

Steering the ship into the future; managing risk, holding people to account, stewardship and managing the culture

“Sustainable governance”

It’s more than risk management & compliance

It’s about creating a viable future for all stakeholder

Defining our terms 2:

Human development & the common good

“Human development”

Q: should humans be the primary focus?

Add ecology and planet to human development

“Common good”

What is beneficial for all or most members of a given community

Involves values, purpose

Beyond the organisation eg UN’s Sustainable Development Goals (SDGs)

The Sufficiency Economy Philosophy (SEP)



Buddhism-based philosophy
at the national level

Sufficiency Thinking shows
a pathway for sustainable
development beyond mere
governance to achieve the
common good.

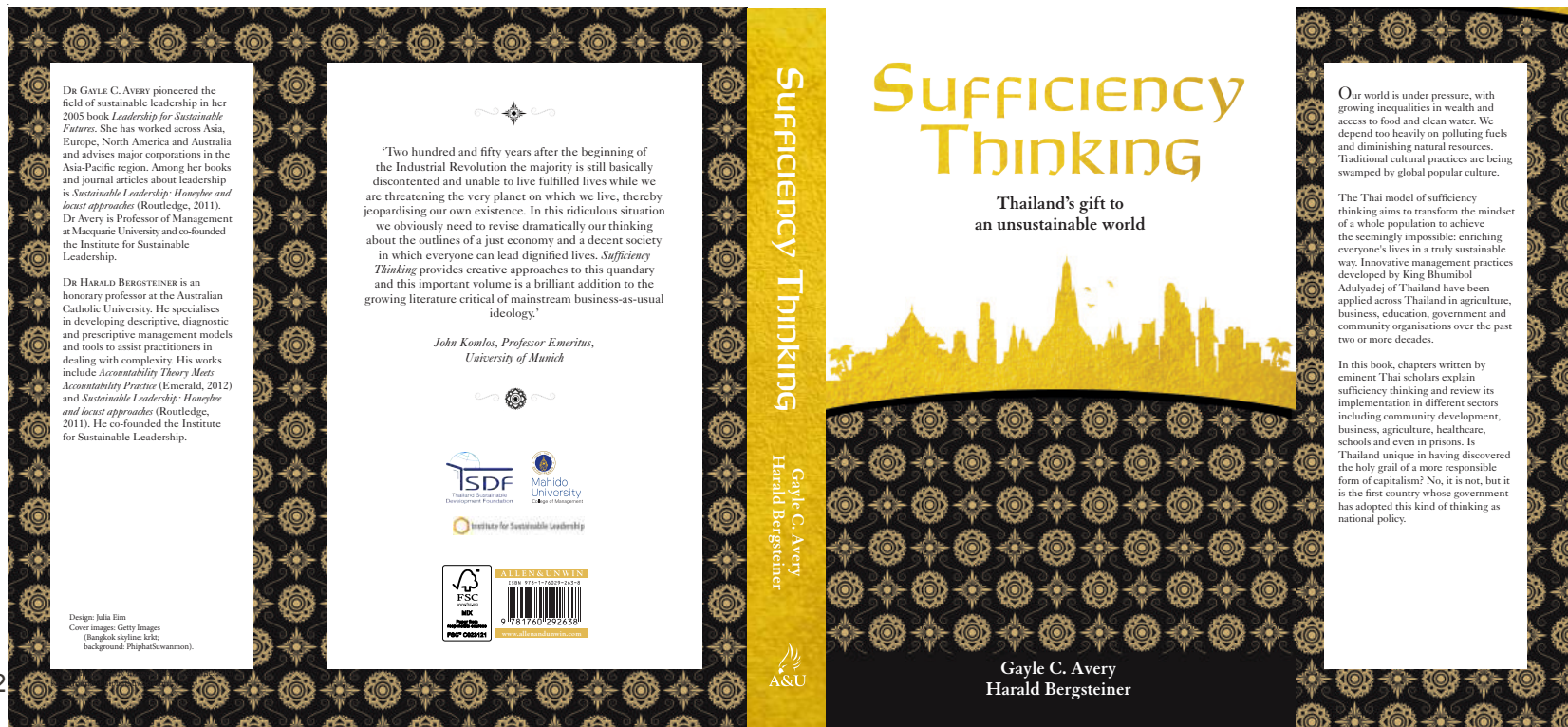
Conceived, promoted, and
implemented by Rama IX
(King Bhumibol Adulyadej)



The SEP

In 2016, ISL was commissioned by the Thai Government and the Thai Crown to:

- edit and co-write a book featuring the “definitive” exposition of the SEP
- develop a graphic model that captures the process and logic of the SEP
- conduct a series of meetings with senior members of Thai society



The SEP Model and its rationale

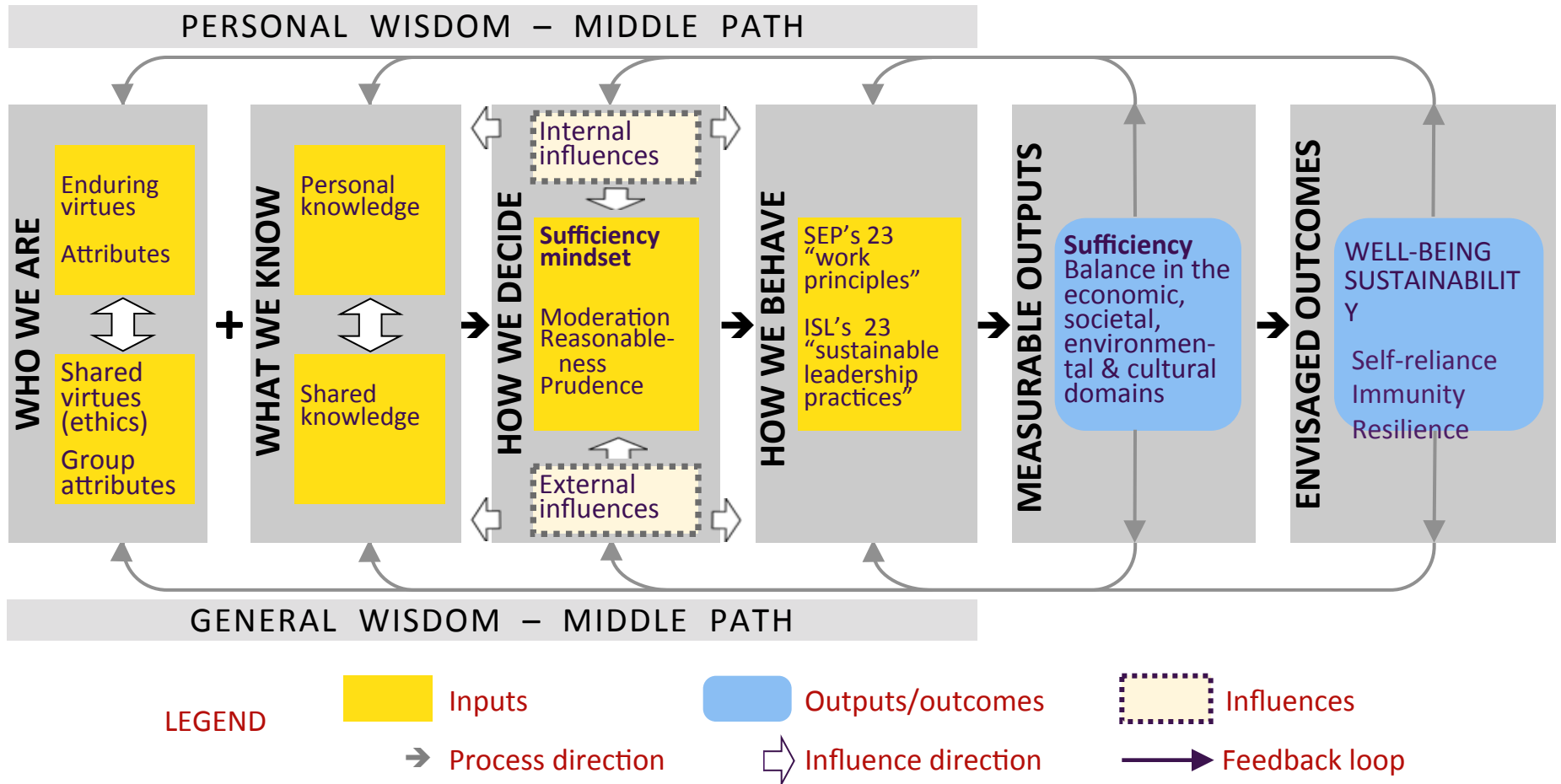
The SEP Model serves four key objectives:

- ◆ effectively display the complexity, logic and integrative nature of the SEP;
- ◆ provide a research framework that ensures that researchers' endeavours are coordinated and complementary in a disciplined way;
- ◆ serve as a teaching tool that provides an overall framework, whilst offering opportunities for customisation;
- ◆ provide a step by step process for applying the SEP.

The meaning of the SEP to Thai society

- Implemented widely across Thailand – e.g. in **education**, business, community development, agriculture ...
- In 2000, the SEP was written into the Thai constitution.
- Since 2002, it has been written into all 5-year national development plans.
- In 2006, the UN awarded the King its first Human Development Lifetime Achievement Award.
- In 2017 (when Thailand chaired the G77), 19 high-level representatives from 17 G77 countries were schooled in the SEP by ISL at Thailand's cost.

The Sufficiency Economy Philosophy



From: Avery & Bergsteiner 2016. *Sufficiency Thinking*. Allen & Unwin. p. 52

What is corporate culture?

Greg Medcalf, ex-Chairman ASIC, (2016) defined culture as:

“An organisation's culture is its set of shared values or assumptions....the underlying mindset of the organisation. Culture shapes and influences people’s attitudes and behaviours towards, for example, customers and compliance.”

Culture thus refers to the **integral ecology of an organisation.**

<https://www.asic.gov.au/regulatory-resources/corporate-governance/corporate-governance-articles/corporate-culture-corporate-values-and-ethics/>

Culture: the integral ecology

- What affects the integral ecology in an organisation?
- Fundamental question: In whose interests are you acting?
 - The common good eg SDG's?
 - The organisation's interests eg profits?
- The answer:
 - is anchored in your organisational culture, which
 - enhances – or diminishes – the common good

Organisational philosophy drives culture

Honeybee vs locust leadership

- **Honeybee leadership** acts in the interests of the common good (eg SDGs), while leading to high performance and resilience even in difficult times.
- **Locust leadership** emphasises the short-term interests of a narrow group of stakeholders, eg investors, to the detriment of all.

Honeybee & Locust leadership apply at the country level too – Anglo vs non-Anglo

Sustainable “honeybee” leadership

Distinguishing honeybees from locusts

Our research into organisations existing for 100+ years yields a set of 23 honeybee practices that form a self-reinforcing system.

- Honeybee practices lead to high performance and resilience.
- Evidence-based approach

Locust leadership does the opposite to honeybees.

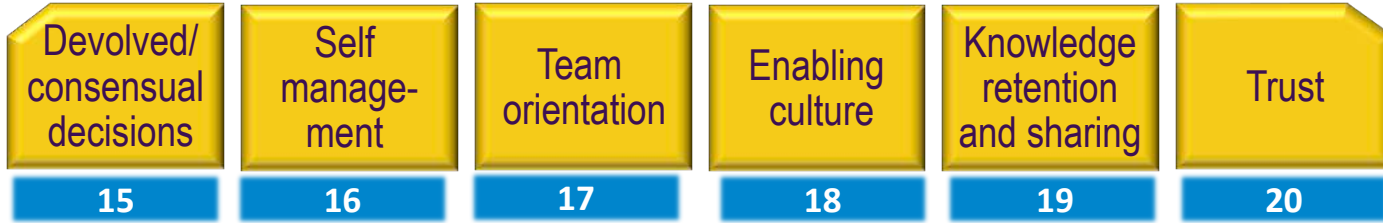
The Sustainable Leadership Pyramid



PERFORMANCE OUTCOMES



KEY PERFORMANCE DRIVERS (customers)



HIGHER-LEVEL PRACTICES (employees)



FOUNDATION PRACTICES (managers)

1. Developing people continuously
2. Amicable labour relations
3. Long-term staff retention
4. Internal succession planning
5. Valuing people
6. Top-team leadership
7. Ethical behaviour
8. Long-term perspective
9. Considered organisational change
10. Independence
11. Environmental responsibility
12. Social responsibility
13. Stakeholder approach
14. Strong shared vision

Trust

Trust is a key element in the SL Pyramid.

Trust and good-will in honeybee organisations,

Contracts in locust organisations.

The value of trust tends to be underestimated

The cost of distrust and abusing trust is also underestimated

Trust should extend to all stakeholders, i.e.

In whose interests are we really acting?

Or should be acting?

How how can church ministries help the church to rebuild trust?