

The Bystander Effect in Corporate Governance

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Abstract

This paper examines the impact of the bystander effect on corporate governance and organizational decision-making. It analyzes how factors such as diffusion of responsibility, fear of consequences, and hierarchical pressure lead to inaction in addressing unethical practices. The study highlights the resulting issues, including delayed decisions, reduced accountability, and poor risk assessment. Using the Volkswagen Dieselgate case demonstrates how organizational culture can reinforce collective silence. The paper concludes that strengthening leadership, accountability mechanisms, and communication systems is essential to minimize the bystander effect and promote ethical behavior in organizations.

Introduction

In business, it is very important to have an authoritative leader who takes the accountability of actions and steps up when required. Imagine sitting in a room full of people where a person is presenting a ppt and there are few errors everybody present there will think that others will point it out and no one takes the charge and the problem is not resolved is psychology the effect is known as “The Bystander Effect”. This term was introduced by two social psychologists John M. Darley and Bibb Latané in 1968 in this they conducted experiments to see why people do not help in various emergency situations when they have people around them and they concluded that people are less likely to react because of diffusion of responsibility, meaning that everyone assumes someone else will take action. Further we will be seeing how this effect affects the decision making in a corporate world and how it affects a business organisation.

Understanding Bystander effect in Organisational context

Bystander effect refers to a situation when in a company employee or managers fail to act to an unethical behaviour like fraud, harassment or rule violation and discrimination thinking that someone else or higher authority will take care by themselves and they do not need to interfere in it. The reason of this reaction could be fear of consequences, group pressure or as simple as ‘it is not my place’. As a result, a very small situation which could have been sorted at base level can turn into full-fledged crime.

Factors causing this reaction

The First Diffusion of responsibility where people believe that someone else will act so why should we interfere in it.

The Second is Pluralistic ignorance in the others assume that if no one is taking so why should I act or if no one is reacting it might not be serious.

They might also fear the negative consequences they might face like damaging their relationships, losing job, or being treated differently which stops them from speaking up.

Effects on Decision Making

Decision making plays a very important role in the betterment and smooth working of an organisation. This effect influences decision making by slowing it down and weakening its quality and it can also lead to very wrong outcomes as nobody takes the initiative and speaks up when there are people around them.

This leads to Lack of participation as people think that there are many people who are better than them and will give better suggestions or who can better concern them and less people take part in it so the result can be biased or incomplete.

False agreement in this the silence is considered as agreement or consent, making it look like everybody agreed to the decision and support it but they still have doubts regarding the situation.

Delayed decisions as everybody waits for someone else to act in critical situations the problems are not dealt on time which increase the risk and or can lead to missed opportunities.

Poor risk assessment if no one speaks up it can continue to make decisions that can be harmful for long run.

If it is not addressed on time, it can reduce accountability, poor decision making, and weaker outcomes as people rely too much on others for taking decision or speaking up instead of taking individual responsibility or present their mind out in front of others.

Role of Leadership and Board Accountability

Weak leadership and poor board accountability play a very crucial role in encouraging bystander effect.

When the leadership is not strong the employee feels uncertain about sharing their thoughts and views and are very uncertain about taking actions which promotes bystander effect. When the leaders do not set clear ethical standards, it sets an indirect message that every behaviour is acceptable and there is nothing wrong with how things are working it creates the culture of silence.

The lack of accountability adds up to the damaged situation, if there are no proper systems for reporting their problems or if the employee fears getting punished for speaking up they prefer to stay silent. In this the employee avoids actions as the responsibility is unclear or shared.

On the other hand, if there is ethical leadership and proactive governance it can reduce the bystander effect. As, the strong leader sets clear boundaries and act fast and mindfully against wrongdoing and offer open and honest communication regarding an issue in an organisation. Boards that actively questions an organisation and give reviews, challenge management decisions cause a sense of responsibility at all levels of an organisation. If both the factors are strong it builds trusts which make the employee have a belief that they are safe and can report if they are facing any problem or if something needs to be improved to create a better working environment.

Case Study

Volkswagen (Diesel gate Scandal)

Background

In 2015, Volkswagen was exposed for inserting software in diesel vehicles to control emission test results. The company intentionally fooled regulators and customers worldwide.

Bystander Effect in Action

- **Collective Silence:** Engineers and employees were aware of the manipulation but failed to raise the issue.
- **Diffusion of Responsibility:** Responsibility was spread across multiple departments, allowing individuals to assume that accountability lay elsewhere.
- **Authority Pressure:** Strong top-down management discouraged questioning and dissent.

Analysis

This case demonstrates how a culture of **hierarchical conformity** can suppress ethical intervention, reinforcing the bystander effect. The organization exhibited **systemic ethical disengagement**, where inaction became normalized.

Conclusion

In conclusion, the bystander effect poses a significant challenge to effective corporate governance by fostering a diffusion of responsibility and discouraging individual accountability. As evidenced across organizational contexts, inaction often stems not from ignorance, but from hierarchical pressure, conformity, and perceived risk. This creates an “accountability vacuum” where ethical concerns remain unaddressed. Therefore, Organisations must move forward beyond formal structures and cultivate a culture of proactive responsibility, where individuals are empowered to act decisively and uphold ethical standards.

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