Orgs Behaving Badly

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It seems like every week we hear an exposé of corporate misconduct. It's trusted companies like VW falsifying emissions, Wells Fargo opening fake accounts, or DuPont hiding information on the toxicity of Teflon.

It feels too easy to blame these companies and the people in them. Instead, we took a long hard look in the mirror and asked ourselves, are we designing organizations that create conditions ripe for misconduct?

Based on what we see in the news, you might think that corporate misconduct is a rare event that happens every few years. But alarmingly, research shows that most firms average two instances of substantial misconduct each week[1].

When we look at companies that have suffered some scandal, often there's no single person to point the finger at, but rather a system that encourages bad behavior. For example, Wells Fargo set quotas for new accounts that exceeded the entire territory's population within 30 days[2]. The pressure to meet an unattainable goal forced employees to go into survival mode and meet the quota any way they could, even if it was unethical.

When I step back and look at that example, I think about my own work, and all the companies I've encouraged to set ambitious goals. I encourage people to "work differently, not harder!" But not everyone can come up with a smarter, different way to do things. What happens when people can't find a way to 'work smarter'? Do they resort to misconduct? Did I unintentionally tempt people to cheat the system? To my knowledge, I didn't. But who knows? Maybe someone I taught passed it on to someone else, and the message got muddled like a game of telephone, ending up with someone feeling undue pressure.

There's a lot of great work being done to detect and punish misconduct after the fact. It's necessary and important because someone will almost always try to cheat the system. We're asking a question further upstream, before misconduct even happens. Our inquiry asks, "what conditions exist that invite or even encourage misconduct in the first place?"

According to two similar surveys, 36-60% of managers surveyed said they would engage in misconduct and misreporting[3]. That is a really high percentage! What is driving such willingness to act unethically?

Historically, companies handle misconduct through policy and punishment. "Our policy is that you don't do________ ; otherwise, you're fired." But policies have loopholes.

Misconduct is often blamed on an individual, sidestepping the need for systemic evaluation. "Our policy says not to do ______; this person didn't follow the policy." Even though the action was individual, it's important to investigate why an individual would choose to violate ethics and policy. Why would a person risk their job, reputation, and possibly jail time?

When you look at misconduct cases, often individuals were in a double bind; damned if you do, damned if you don't. Violating a policy could get them fired, but if they follow the policy, they will lose their job because of low performance. We've seen this even in lower-stakes situations; someone in a Fortune 10 company told me, "in order to be a good project manager, you have to know how to go around the process." It makes me wonder why there is a process at all!

The organization's design, perhaps unintentionally, can put people in a situation where they must violate policy and ethics to succeed.

If we look to nature, through the lens of living systems, an organism and its environment are interconnected and constantly adapting to each other. But the environment any given organism is in can dramatically change its behavior. For example, how would you describe the differences in behavior between a green grasshopper and a swarm of locusts? One you might describe as harmless, gentle, peaceful, even beautiful. The other you could easily call crazed and destructive, relentless, destroying everything in its path. Recent discoveries in epigenetics offer a fascinating lesson here. A gentle green grasshopper and a crazed locust have 100% the same genome. They are identical at the genetic level. What makes the difference? The conditions of their environment. Yes, something as simple as perceived environmental pressure (eg. scarcity of resources) can turn that harmless little friend into a wild force of destruction. Same animal, different conditions, different behavior.

This offers a new paradigm on the relationship between a person's behavior and the conditions in which they are being asked to operate. A responsible, compassionate inquiry into the system dynamics that might be at play when we see corporate misconduct happening (especially at the frequencies described above), factors in the conditions in the environment around these behaviors, and the relationship to the people involved. What tensions or competing priorities have we abdicated to the individual that actually exist in the system? What conditions have we created in their environment that might be forcing them into that misconduct? We have, after all, created these conditions.

"A bad system will beat a good person every time." - W. Edwards Demming.

An example of the kinds of conditions that might promote misconduct is pitting goals against values, but only rewarding the goals. When an organization sets aggressive targets—say for financial performance—and then sets policies for integrity and conduct, there is a tension between financial targets (goals) and integrity policy (values). When the organization only truly rewards the people who hit targets, they are creating the conditions for potential misconduct. Simon Sinek articulates this point well in saying "[organizational] cultures that place excessive focus on quarterly or annual financial performance can put intense pressure on people to cut corners, bend rules and make other questionable decisions in order to hit the targets set for them."

Unfortunately, those who behaved dubiously but hit their targets are rewarded, which sends a clear message about the organization's priorities."[4] Even though the organization may speak about integrity, and even have policies about it, the rewards of compensation, advancement, and social status are all linked to performance. This is an example of taking a tension that actually exists in the system (the company's responsibility for fiscal performance and operational integrity) and abdicating it to the individual with a one-dimensional reward system without policies about conduct. If we are going to see real change happen, we have to acknowledge the role the organization is playing in creating these conditions, and not just blame the individuals.

Following this same logic, we can't simply blame organizations and their leadership and governance structures in isolation. After all, an organization is really another organism in a broader environment—the competitive marketplace of our economy. So what might be happening in this larger sphere that may incite or even encourage misconduct? What pressures exist that might cause an organization to behave in these ways, setting up behavior traps for employees on behalf of the all mighty quarterly statement? We don't have to look far to see just how much pressure our system puts on organizations to maximize the return on capital, with so many public companies so closely evaluated on their quarterly performance reports alone.

Looking a little deeper, we realize today's environment is not the same as it was 10, 20, or 50 years ago. These are not necessarily poorly designed organizations; they were well designed for different outcomes than what we need today. For example, some organizations were designed in a predictable, repeatable, slower-moving environment optimized for efficiency, control and profit. The design was perhaps well-adapted to the time, putting growth first. However, the traditional organizational design has shown to be ill-equipped for the complex demands of today's faster-changing, less-predictable, highly-interconnected world. And so might be our scoresheets.

When we only truly evaluate and reward based on one of multiple important priorities, it comes as no surprise when people and organizations take short cuts.

The contradiction between governance and performance design is illustrated in Volkswagen's emissions scandal. VW professed to value the environment, working to lower emissions. But when forced to choose between lower emissions and sales, they systematically—and repeatedly—chose sales.

Looking through the living systems lens, each organization is an "organism" in another "environment." Organizations are not creating these conditions in isolation but rather are responding to conditions in which they find themselves. Today's economic systems are often designed only to reward economic growth via a strong quarterly financial statement. In that case, it is natural to assume that organizations will find ways to maximize that growth, often above all else.

We see the impact of the emphasis on growth in the Wells Fargo example mentioned earlier, where the push for growth overshadowed employee well-being and ethics. Employees reported feeling squeezed to meet their quota, and begging family members and friends to come open new accounts.

The hard truth is that many of us unknowingly play a role in creating conditions for misconduct. By acknowledging the role of organizational design in creating these conditions, we can then find ways to design for integrity. We might start by aligning incentives with aspirational values to create more congruent behaviors.

In summary, how we design organizations can profoundly impact the likelihood of misconduct. First, ensure that your design is optimized for the organization's direction. Next, design reward systems congruent with governance systems. And lastly, ensure that organizational design aligns with the external ecosystem that the business lives in.

Most importantly, stop attributing individual behavior to the individual, and start looking for conditions designed into the organizational system. ⓔ

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