What do you mean, “Management?”

- Theories
- Fads
- People
- And the effects are good and bad!
Management Theory: Incentives Work!
- Of course they work, but they may not be set up correctly
- They impact ethical culture and compliance

Incentives and Bonuses

“I come not to deny that they work; I come only to warn that they can wreak havoc in an organization when they are wrong or misaligned.”

M. M. Jennings
What incentives do

- “Federal Jury Convicts Former Shaw Group Safety Manager Of Major Fraud Against The United States: Injuries Hidden at TVA Nuclear Sites to Obtain Over $2.5 Million in Safety Bonuses”
  - Shaw Group for contractor work at Brown’s Ferry, Sequoyah, and Watts Bar
  - February 21, 2013
- “Engineering Safety Manager Sentenced to 78 Months.”
  - April 13, 2013

Goals Met, Incentive Earned . . . But

- 80 injuries, including broken bones, torn ligaments, hernias, lacerations, and shoulder, back, and knee injuries were not properly recorded by safety engineer Walter Cardin
- Result was a $2.5 million bonus paid by TVA to Shaw
- Safety bonuses were tied to injury rate
- Shaw paid a $6.2 million fine to settle a civil fraud case
When the Goal for Incentives Is Not Defined Carefully

- The Lessons of the Atlanta Public School System (APS)
- Board and Superintendent:
  - Test scores had to go up each year
  - “No exceptions. No excuses.”
  - 178 teachers changed answer sheets
  - 38 principals supervised weekend “changing parties” on answer sheets
  - 35 indicted

Irrational Choices Fueled by Incentives

- “Atlanta school administrators emphasized test results to the exclusion of integrity and ethics.”
  - Georgia Governor Nathan Deal
**Losing the Goal in Incentives**

“APS became such a ‘data-driven’ system, with unreasonable and excessive pressure to meet targets, that Beverly Hall and her senior cabinet lost sight of conducting tests with integrity.”

○ Governor’s Task Force on APS Testing

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**Defining the goal carefully and staying focused**

| EDUCATED YOUNG PEOPLE vs. TEST SCORES |
| MEASURE KNOWLEDGE AND SKILLS vs. GIVING ANSWERS/ALTERING ANSWER SHEETS TESTING |
| FINDING WHAT WORKS/HOW THEY LEARN vs. TEACHING TO THE TESTS TEACHING |
The VA, Queues, and Bonuses

<table>
<thead>
<tr>
<th></th>
<th>Waiting Time</th>
<th>Number Treated</th>
<th>Number In Queue</th>
<th>Waiting List</th>
<th>Other List</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital</td>
<td></td>
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<tr>
<td>Clinic</td>
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<tr>
<td>Tests</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Specialist</td>
<td></td>
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<td></td>
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<tr>
<td>Equipment</td>
<td></td>
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</tbody>
</table>

Pressure:
Probability from the Financial Analysts Institute

\[ P = f(x) \]

- \( x = \text{amount of money involved} \)
- \( P = \text{probability of an ethical outcome} \)

What impact does pressure that results from compensation formulas have on behaviors?
The Influence of Pressure

Other Pressures from Management

- Time at Work: Physical
- Schedules: Personal demands
- The Numbers: Financial performance
What Pressure Does

Irrational Choices, Self-Destructive Behaviors

The New York Marathon

Destructive Behavior

“The cost is costing us huge $$$$.”

“... desperately at least need to turn the Raw Peanuts on our floor into money ... . We have other peanuts on the floor that we would like to do the same with.”

• Stewart Parnell, CEO of Peanut Corporation of America, e-mail sent January 19, 2009 on findings of salmonella in the company’s product. The company has declared Chapter 7 bankruptcy.
And the message to ethics and compliance officers following events such as these?

- Training
- Tell them they can’t do it
- Investigate
- Discipline
Individual Ethical Lapses

Individuals make decisions without externalities. Inflated travel expenses, computer use issues, embezzlement, blaming others for mistakes, appropriation of trade secrets, insider trading.

Company/Organization Ethical Lapses

Individuals make decisions but company forces (OB) contribute to the psychology. Falsification of records and shortcuts due to incentive systems and rewards; culture of fear and silence rewards those who go along.

Industry Norms Ethical Lapses

Company/organization policy/strategy makes the decision for individuals due to industry practices. Dabbling in the gray areas as industry moves in that direction, analysts’ behaviors, subprime mortgages, CDOs, expert networks, steroid use in sports, stock options, etc. “If we don’t do it . . .”

Cultural/Societal Ethical Lapses

Individual/company/organization makes decision but feels justified because societal norms have shifted. Cheating on exams, speeding, infidelity, worker documentation, conflicts of interest, grease payments, bribes?, not paying taxes? “Everybody does it!”

Management Theory 2: The Mantras

- The motivational sayings
- Posted on wall with mountains, climbing, conquering
The Motivational Mantras

- “Sharpen your pencil!”
- “Get to yes.”
- “Find a way.”
- “Do whatever it takes.”
- “Go the extra mile.”
- “100% results, all the time.”
- “Extra effort, extraordinary results.”
- “Staying at #1.”

Management Theory 3: The People and that Tone at the Top

- As long as the tone at the top is good . . .
- Good leaders . . .
- It’s not a static thing
The Bathsheba Syndrome

- Leader with a humble past
- Dramatic and rapid rise to power
- Strong skills
- Charismatic personality
- Strategic vision
- Strong ethics
- Called upon to lead

Recognizing Risk in Leaders

<table>
<thead>
<tr>
<th>Positive/Benefit</th>
<th>Negative/Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Level Privileged Access</td>
<td>Inflated Belief in Personal Ability</td>
</tr>
<tr>
<td>• Position</td>
<td>• Emotionally expansive</td>
</tr>
<tr>
<td>• Influence</td>
<td>• Unbalanced personal life</td>
</tr>
<tr>
<td>• Status</td>
<td>• Inflated ego</td>
</tr>
<tr>
<td>• Rewards/Perks</td>
<td>• Isolation</td>
</tr>
<tr>
<td>• Recognition</td>
<td>• Stress</td>
</tr>
<tr>
<td>• Latitude</td>
<td>• Transference</td>
</tr>
<tr>
<td>• Associations</td>
<td>• Emptiness</td>
</tr>
<tr>
<td>• Access</td>
<td>• Fear of failure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organizational Level Control of Resources</th>
<th>Loss of Strategic Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No direct supervision</td>
<td>• Org on autopilot</td>
</tr>
<tr>
<td>• Ability to influence</td>
<td>• Delegation w/o supervision</td>
</tr>
<tr>
<td>• Control over decision-making</td>
<td>• Strategic complacency</td>
</tr>
<tr>
<td></td>
<td>• Neglect of strategy</td>
</tr>
</tbody>
</table>
Victims of the Bathsheba Factor

- Mark Hurd – HP
- Raj Rajaratnam – Galleon Hedge Fund
- Phil Condit – Boeing
- Michael Sears – Boeing
- Harry Stonecipher – Boeing
- Richard Scrushy – HealthSouth
- Steven J. Heyer – Starwood Hotels
- Al Dunlap – Scott Paper and Sunbeam
- Enron – most of the senior team
- Thomas Coughlin -- Walmart
- David Petraeus – CIA
- Dennis Kozlowski – Tyco
- Bernie Ebbers – WorldCom
- John Thain – Merrill Lynch
- Mike Lynch – Autonomy
- Bernie Madoff – Madoff Securities
- Brian Dunn – Best Buy
- John Browne – BP
- Chris Albrecht – HBO
- Mark Everson – American Red Cross

So, how does this happen?

- The lack of a flat organization
- The lack of feedback
- The failure to turn to the front-line employees
Chase: The “London Whale Trader”

- “Why has he been at work for three days in the same clothes?”
  - Employee in operations at the London office who wondered if something was going on that was untoward

Hallmark/Westland Meat Co.

“The video just astounded us. Our jaws dropped . . . We thought this place was sparkling perfect.”

Anthony Magidow, General Manager
Flattening the organization

- MBWA
  - Unplanned and unscheduled interaction
- “Is there anything that I don’t know that I should know?”
- “I need to know all the bad news.”
- Ford and Mulally

Management Fads

- Employee engagement surveys
- Employee ethics surveys
- Employee satisfaction surveys
- The reality of fear
Management Fads

- The clever language
- “Managing optics”

<table>
<thead>
<tr>
<th>The “way harsh” language</th>
<th>The “warm” language</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Cooking the books”</td>
<td>“Financial engineering”; “Getting results”; “Smoothing earnings”; “Managing earnings”</td>
</tr>
<tr>
<td>“Copyright infringement”</td>
<td>“Peer-to-peer file sharing”</td>
</tr>
<tr>
<td>“Manipulated the appraisal”</td>
<td>“Got a second opinion”</td>
</tr>
<tr>
<td>“Backdating options”</td>
<td>“Periodic look-backs”</td>
</tr>
<tr>
<td>“You lied”</td>
<td>“I misremembered”</td>
</tr>
<tr>
<td></td>
<td>“I failed to live up to my duty of candor.”</td>
</tr>
<tr>
<td></td>
<td>“I gave the least untruthful answer I could.”</td>
</tr>
<tr>
<td>“You lied”</td>
<td>“I misspoke”</td>
</tr>
<tr>
<td></td>
<td>“I told you versions of the truth”</td>
</tr>
<tr>
<td>“You lied”</td>
<td>“I just managed expectations”</td>
</tr>
<tr>
<td></td>
<td>“I used incremental escalations of half-truths.”</td>
</tr>
</tbody>
</table>
### More warm language

<table>
<thead>
<tr>
<th>The “way harsh” language</th>
<th>The “warm” language</th>
</tr>
</thead>
<tbody>
<tr>
<td>“That’s cheating!”</td>
<td>“That was creative thinking!”</td>
</tr>
<tr>
<td>“Suspended from school”</td>
<td>“Just restricted”</td>
</tr>
<tr>
<td>“Conflict of interest”</td>
<td>“It wasn’t so much a conflict of interest as it was a confluence of conflicting motives.”</td>
</tr>
<tr>
<td>“We don’t really know.”</td>
<td>“It’s just engineering judgment.”</td>
</tr>
<tr>
<td>“Bribes”</td>
<td>“Useful expenditures”</td>
</tr>
<tr>
<td>“Teachers changed test answers.”</td>
<td>“We had test clean-up parties.”</td>
</tr>
</tbody>
</table>

### “Warm” Labels vs. “Way Harsh” Labels

<table>
<thead>
<tr>
<th>The “way harsh” language</th>
<th>The “warm” language</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Hit man”</td>
<td>“Vigilante”</td>
</tr>
<tr>
<td>“You backdated documents.”</td>
<td>“I got the job done.”</td>
</tr>
<tr>
<td>“Changed the numbers”</td>
<td>“I helped the client.”</td>
</tr>
<tr>
<td>“Those rates weren’t approved yet.”</td>
<td>“Pro forma adjustment”;</td>
</tr>
<tr>
<td></td>
<td>“Deseasonalized the data”;</td>
</tr>
<tr>
<td></td>
<td>“Followed what everyone in the industry is using.”</td>
</tr>
<tr>
<td>“Those rates weren’t approved yet.”</td>
<td>“I know they will be approved.”</td>
</tr>
<tr>
<td></td>
<td>“That’s a formality.”</td>
</tr>
<tr>
<td>“Stole from inventory”</td>
<td>“Made allocation adjustments”</td>
</tr>
<tr>
<td></td>
<td>“We were just reallocating resources.”</td>
</tr>
</tbody>
</table>
Management Fads: Complex Tests for Ethics

- Stakeholder Theory
- Drift from definitive standards
- Lack of enforcement

Jamie Dimon, CEO of Chase

- His post- federal regulatory issues advice to employees:
  - “Make every decision as if the head of the SEC and the Pope are in the room with you.”
The Impact of Enforcement

“Enforcement is to organizations what integrity is to individuals.”

MM Jennings

“For many people, it’s good to see senior officers are disciplined like others. There is a perception that senior folks have a way around the regulations.”

The Generation Fad

- We are all so different
- Maybe not . . .
Your Future Work Force

High School Students Surveyed

- Cheated on a test
- Lied to teacher in past year
- Copied homework
- Lied to parents in past year
- Lied to save money
- Stole from a store in past year
- Lied on this survey
- Satisfied with their character and ethics
- Believe ethics and character better than most

0% 20% 40% 60% 80% 100%

Josephson Institute 2012

“No. 176: Do not steal more than $3 worth of office supplies per quarter.”

—Kelly Williams Brown, from her book Adulting: How to Become a Grown-up in 468 Easy (ish) Steps

“Or, you could not steal at all.”

—M. Jennings
Self-Definers:
Honesty in Social Networking

How honest are you in your Twitter, Facebook, etc.?

- Totally honest
- Fib a little
- Total fabrication
- Flat-out lie

26%
21%

Cheating in College

- 11% reported cheating in 1963
- 49% reported cheating in 1993
- 75% reported cheating in 2003/2005/2006
- 85% 2013 (Eric Alder – Ohio State)
- 50% graduate students reported cheating (2006)
The Ethical Truth About Those Generations
- The 1/3 break-out
- How the other 2/3 learn
- Inherent goodness

One more fad . . .
- Those risk charts and numbers . . .
It’s the missing hand rail in the shower that will result in the greatest number of injuries and your highest costs.

The 98/1/1 %: The Dan Ariely Matrix

- Absolutely dishonest: 1%
- Just a little dishonest: 98%
- Absolutely honest: 1%