BAD APPLES OR BAD PERFORMANCE

Lessons for Managers

By Niki A. den Nieuwenboer, PhD, and Linda Klebe Treviño, PhD
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Not all corporate scandals are created alike, but one genre keeps rearing its ugly head. Consider the Atlanta Public Schools (APS) cheating scandal where principals, teachers, and test coordinators changed students’ answers on tests to inflate scores and improve school reputations,¹ the scandal at the Veterans Health Administration (VHA) where wait times were made to seem much shorter than they actually were, the scandal at Wells Fargo where workers created millions of unwanted and unauthorized accounts, or the issues in the military documented in the report, “Lying to Ourselves: Dishonesty in the Army Profession.”² These scandals all involved performance management practices that caused employees to feel pressured to engage in unethical behavior. Moreover, the deceit in these organizations was widespread and something of an open secret. Yet managers failed to intervene.

So, why? Why do managers do such a poor job of preventing such scandals or nipping them in the bud when they do occur? One possibility is that they care more about financial incentives and short-term impacts rather than the longer-term effects on the organization’s reputation and well-being. But another possibility is that business school professors, like us, are failing to adequately educate managers about how to create strong ethical cultures where such scandals are less likely to occur.

In each of the scandals mentioned above, higher-level managers imposed ambitious, unrealistic performance goals. Wells Fargo famously had an “eight is great” performance target where employees were given the goal of selling eight financial products to each customer although the industry average was only three. The VHA scandal involved performance pressures from higher-ups to (unrealistically) improve veterans’ wait times for care despite limited resources. And one of the issues that motivated lying in the military involved mandatory training requirements that were impossible to complete in the time available for training. Yet, in every case, employees reported that goals had been achieved.

A logical question might be, where were the managers? We have learned that middle managers often go along with the unrealistic goals set by upper management because they are incentivized based upon what their subordinates achieve, and subordinates’ success often benefits managers’ reputations and careers. As a result, middle managers can feel compelled to accept a goal and then find ways for their employees to either achieve the goal unethically (for instance, by opening accounts for customers illicitly as they did at Wells Fargo) or to make it look as if they are achieving a goal (for instance, by altering test scores as in the APS cheating scandal). In fact, we have learned that middle managers often are responsible for dreaming up the illicit methods employees ultimately use. And, when lower-level employees complain about unrealistic goals and attempt to resist engaging in the prescribed unethical behavior (as many actually do), managers double down with pressures designed to get employees to comply and report goal achievement.

Often the organizations involved in these schemes have checked the compliance boxes. They have formal ethics programs in place that include codes, training, and hotlines for reporting misconduct. Sometimes employees caught up in the deception do speak up, but it’s not unusual for them to face negative consequences, including firings (e.g., at Wells Fargo and APS) or stymied careers (e.g., in the military). Employees know about the negative consequences for speaking up, and if they don’t want to be fired or quit their jobs, they most likely will cave under the pressure. Indeed, APS teachers complained about a culture of fear, intimidation, and retaliation.³ Ethical codes, training, and hotlines are rendered ineffective in the face of intense performance pressure and the prospect of losing one’s job. They simply cannot compete. So, it is important for top managers who wish to avoid such scandals to go beyond a “check the box” compliance approach and take the systematic design of performance management systems and performance cultures seriously. It is rare to find top managers attending to the design of these systems or engaging in a process to identify the cultural root causes of scandals. But the primary question that managers should ask themselves in scandal situations is this: How is the...
system that we designed incentivizing this bad behavior? This question cuts to the core of the problem, because if widespread misconduct exists, you can be sure that management is somehow incentivizing it. Assuming that top managers wish to avoid scandal in the first place, they should anticipate how the goals and incentives they impose may result in problematic behavior.

In addition to focusing on legal compliance programs, senior managers may be inclined to focus on finding and removing from the organization the “bad apples” who engaged in the misconduct. That’s certainly what happened at Wells Fargo, where 5,300 employees were fired for cheating. With this approach, senior managers are in denial that they created the performance culture and thus the behavior that fueled the scandal, and instead attribute any problems to a bunch of bad apples who need to be discarded. It seems silly to think that scandals involving thousands of employees somehow can be blamed on bad apples, but this is a typical and convenient response.

Thinking systematically about goals and incentives is much more nuanced than managers typically think. First, managers need to know with certainty that the goals they set for subordinates are achievable given the employees’ skill sets, the resources available to them, and other relevant criteria. Senior managers should seek input from lower-level employees themselves about whether good performance can be accomplished in an ethical manner because, under enough pressure, even good employees may take ethical shortcuts. Senior managers should interact more and more frequently with front-line employees so that they can learn about the challenges employees face in their work without the filter that middle management can apply. The old advice about “management by walking around” still applies. Employees can tell you what the unethical “workarounds” might be if you just give them a chance to do so.

Ex-Wells Fargo Chief Executive Officer John Stumpf famously said at a 2016 congressional hearing, “I care about outcomes, not process.” This wrongheaded mindset narrows the focus to financial outcomes only, rather than the performance processes and whether work is done ethically. So, in addition to bottom-line goals, managers should establish ethical expectations for how employees accomplish their goals—for example, by including goals (and measures of their achievement) for values-consistent behaviors. If a core value is integrity, one can ask whether peers and leaders deem an employee to be honest and trustworthy, or someone who treats others with respect, who develops long-term relationships with customers, and more. This could be assessed in 360-degree performance reviews where peers and subordinates as well as leaders are involved in the evaluation of any one person.

We want to caution against any inclination to abandon performance goals or other performance metrics, which is another knee-jerk reaction. Goal-setting motivates performance, and in the absence of goals, performance often suffers, as Wells Fargo learned when it briefly abandoned sales goals post-scandal. The many performance-related metrics in the military that ultimately led to so much lying were developed as part of an effort to mitigate subjectivity in performance management. However, if goals are perceived to be unachievable, goal-setting increases the likelihood that employees will behave unethically. So when leaders use goal-based metrics, they should ensure that the goals are achievable and calibrated with ethical behavior in mind: How people reach goals must matter as much as the bottom line when it comes to performance evaluation and compensation for both employees and their managers.

We learned a lot about these processes through a study published in the academic journal Organization Science (Den Nieuwenboer et al. 2017).

The study was based on 15 months of observational data in a large telecommunications company where we examined the conduct of middle managers and their sales staff. Upper-level managers at the company set unrealistic performance targets for the sales staff, known as “desk salespeople,” who sold telecommunications products such as phones or ADSL lines over the phone to corporate customers. But rather than making real sales, most of the desk salespeople merely made it seem as if they were. Because top management relied exclusively on the numbers reported from below, they were unable to fully understand the underlying dynamics of business operations in their own organizations. All this was damaging for the company, leading to unwarranted bonuses and impaired corporate strategic decisions.

We also found that it was indeed the middle managers who found creative ways for their subordinates to reach their goals unethically, and who exerted the pressure needed to get them to comply, including shaming those with low performance. What’s more, we learned that most employees were aware of the unethical nature of their behavior and they were often uncomfortable engaging in it—though they unfortunately did not see a way out short of quitting their jobs. That’s not an appealing option, so many employees reluctantly stayed and cooperated.

There is a real human cost to feeling that one must engage in unethical behavior in order to meet performance goals and keep a job. This human cost translates, at a minimum, to lowered job satisfaction and organizational commitment, and if employees report inaccurate numbers, it can also translate to faulty management decision-making. Senior managers should reconsider their sometimes blind obsession with financial outcomes and focus more on how performance gets accomplished. They should enable their workers to achieve goals ethically by thinking carefully and
systematically about performance management system design.

Performance management system design should crucially look to the organization’s ethical values for guidance and take ethical goal-achievement as seriously as bottom-line performance goal-achievement when the organization makes compensation and promotion decisions. This is doable, and such a system will have a strong influence on how employees feel about the organization and go about their work. A focus on the numbers only—especially if units operate autonomously, which was the case in our study at the telecommunications company and at Wells Fargo—increases the odds that managers will find any way to come up with the numbers, including unethical ways, and impose these on their subordinates, who will feel compelled to comply.

If Wells Fargo had indeed hired 5,300 bad apples, it should have reconsidered its recruitment practices. But the crucial lesson from these many performance management scandals is that bad apples, although they do exist, are likely few and far between. Contextual influences—such as poorly constructed goals and incentives as well as ethical leadership failures—are more likely to be the root cause of widespread unethical behavior. Because these factors are complex and usually implicate senior management and the performance management system that upper management designed, managers may choose the easier path and fire the perceived bad apples rather than doing the hard work of organizational change. An independently conducted ethical culture assessment can prevent such widespread scandals if the recommendations are used to address leadership and performance-management system problems. A strong ethical culture where leaders lead on ethics and the performance management system reflects ethical values can be a bulwark against this type of scandal. If the scandal already has occurred, ethical culture assessment can identify points of leverage that can be used to right the ship and alter its ethical course.

ENDNOTES
3. See endnote 1.

REFERENCES

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