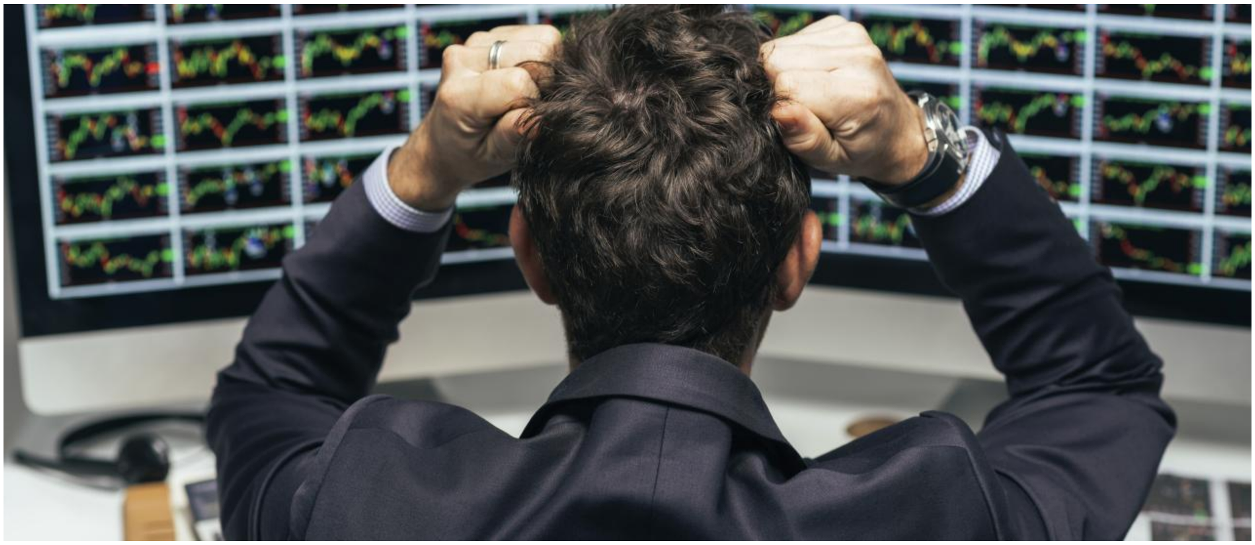
Loyal Cheaters: When Organisations Promote Wrongdoing



By Henrich Greve , INSEAD Professor of Entrepreneurship

Fraudsters seem to cheat more for their organisation than themselves.

Every now and then we hear news about employees who are engaged in wrongdoing of various kinds, usually harmful to customers and employees. The most spectacular have been financial frauds, as when traders lose money while performing trades that break the internal rules of their banks. We often think of such wrongdoing as being the result of greedy employees acting against their company, but is that really the right story?

UBS trader Kweku Adoboli was convicted for unauthorised trading that led to a US$2 billion loss; Barings Bank trader Nick Leeson was convicted for unauthorised trades that lost US$1.4 billion, bankrupting Barings.

Both of these traders started trading out of control after losing money, not while making a profit. You could see them as trying to avoid getting fired, but surely that does not fully explain risking lengthy prison terms. In fact, an odd but plausibly true explanation is that their wrongdoing was an attempt to save the firm from losses.

Research supporting this explanation by Donald Palmer, Professor of Management at UC Davis Graduate School of Management and Christopher Yenkey, Assistant Professor of Organisations and Strategy at Chicago Booth, will **soon be published in Social Forces**. They looked at another context with some famous wrongdoing: the Tour de France cycling race.

Taking one for the team

There, the beginning of blood monitoring in the 2010 race makes it easy to investigate which cyclists likely engaged in blood doping or drugging, even if they did not get blood values suspicious enough to fail tests. It is well known that Lance Armstrong engaged in doping for many years and was stripped of seven wins; not everyone knows that Alberto Contador was declared winner in 2010, but lost the victory after a drug investigation. The key point in the Tour de France is that players may cheat to benefit themselves and their team, and it is actually possible to test what makes them most likely to cheat.

So what determined cheating? The role in the team is most important, because specialists such as team leaders and sprinters had the most suspicious blood values, while their supporting cyclists had the second-most suspicious values. Members of teams that let each cyclist compete individually were least likely to cheat. People don't cheat for themselves as often as they cheat for their organisation.

So we have an interesting result that should give pause to anyone who sees wrongdoing in organisations as a result of individuals looking out for themselves. It could be wrong: they were trying to help their employer. This means that the right response against wrongdoing is not more organisational control of what people do, but less pressure to win.

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