INSEAD The Business School for the World®

KNOWLEDGE

The Critical Consequences of Culture

When management's expectations inspire unethical acts.

One of our earliest lessons is to "follow the leader". We look to our leaders for inspiration and to show us the right path. But when leaders expect the impossible, what happens to the followers? When employees at the bottom of the corporate ladder behave in unethical ways to hit their numbers, are they the ones responsible for corporate rot?

Examining these questions, I've recently developed case studies about three well-known, troubled corporations with senior management unable to lead their firms to success while keeping within the law: **Volkswagen**, Wells Fargo and **Uber**.

Impossible quotas

Anyone who has worked in sales knows the crunch of a quota and how the end of the month looms large. But for those who weren't hired as salespeople but suddenly found soft quotas on their desks, like Wells Fargo bank tellers after the merger with Norwest Bank in 1998, it changes the game. Before the merger, work as a bank teller was a service position focused on clients rather than customers. That is, until Wells Fargo CEO Richard Kovacevich started referring to the bank branches as "stores".

The culture shift at Wells Fargo used nomenclature like "stores", "customers" and "products" which directed workers to see existing clients as means to hit sales targets. Tellers were urged to "**Go for Gr-eight**" – each client was to be signed up for at least eight different Wells Fargo bank services.

Supervisors called bank managers every two hours to check on quotas. Tellers felt harassed by their managers. Under pressure, Wells Fargo employees did whatever they needed to meet quotas, including tagging unnecessary services and accounts to existing bank clients, without their knowledge.

The Wells Fargo internal code prohibited illegal behaviour like "pinning", i.e. employees' use of a client's PIN to create new accounts in their name, but this was so common it had a name. When violators were reported to the internal ethics hotline, nothing was done. Bad behaviour had no deleterious consequences and continued.

Pressure from the top resulted into more than 3.5 million fake accounts and an initial $185 million in fines for Wells Fargo.

Impossible deadlines

In order to sell 10 million cars a year by 2018, Volkswagen created impossible deadlines for producing environment-friendly cars with so-called "clean diesel" engines. CEO Martin Winterkorn was known as a **micromanager** who **pushed** his executives who, in turn, imposed the ridiculously short deadlines onto production teams. To ensure the cars would be road-ready in the allotted time frame, engineers programmed them to trick emissions tests, while in fact, they were polluting at up to 40 times the U.S. legal limit.

Winterkorn's predecessor (and also chairman) Ferdinand Piëch pushed ground-breaking design changes with incredibly short delivery targets on his engineers, threatening to fire them if the job wasn't completed on time. This was a corporate culture where high expectations were met at any cost.

The line of fire

When faced with large-scale ethical breaches, both Wells Fargo and Volkswagen denied any wrongdoing by management. Neither was willing to look at how organisational pressures had resulted in employees following their leaders over the proverbial cliff.

Once Volkswagen's cheat was found out by **researchers** measuring emissions (the state of California was also investigating), the CEO did not fall on his sword or admit responsibility for setting targets that wound up costing the company about **US$30 billion**. Instead, as happened at Wells Fargo, management blamed employees.

When first approached by the California Air Resource Board, Volkswagen managers waffled and tried to discredit the results of the emissions tests; they waited more than a year before admitting that their cars had been programmed differently for testing and road scenarios. As the stock price tanked, Winterkorn said he didn't know about the emissions cheat and pointed at the "terrible mistakes of a few". The company disavowed corporate responsibility in front of the U.S. Congress. It also suspended ten executives in the six weeks after the scandal broke.

Even after firing more than 5,000 employees, Wells Fargo top management insisted that the rampant unethical behaviour didn't reflect its culture. As my colleague Charles Galunic noted, the bank's sacking of 2 percent of its workforce reveals **misplaced ideas** about organisational culture. Reports on how Wells Fargo employees unethically met their sales goals continue to emerge. For example, they misrepresented income information in bundled **loans** that contributed to the financial crisis of 2008 according to the U.S. government. The bank is now refunding thousands of customers who were charged add-on **pet insurance**.

Shifting corporate culture

Volkswagen and Wells Fargo have claimed that the bad apples have been removed from their respective barrels, but their top ranks are still filled with the same "old guard". Uber, on the other hand, had ethical issues from the outset and within seven years of its creation has had to disrupt its initial corporate culture.

Although Uber has **not always accepted** responsibility for its drivers, its management has faced more fundamental ethical issues. Launching in 2010 as UberCab in San Francisco, the firm wasn't licensed as a transport company so California ordered it to cease business. Instead it just dropped the "cab" from the name and Uber was born.

The start-up's co-founder, Travis Kalanick, was a proponent of "**principled confrontation**", which he took to the global stage. For example, although UberPOP was banned in France, the company told its drivers to keep going, until its top execs were **arrested**.

Kalanick was removed as CEO in 2017 yet problems with the company persist around the world, including most recently in **Spain**. The "**cultural norms**" instituted after Kalanick left make it clear that Uber recognised the need to overhaul its corporate culture. CEO Dara Khosrowshahi, an outsider from Expedia, has said that Uber's **new slogan** is "We do the right thing. Period."

For companies like Wells Fargo or Volkswagen to do the right thing, their corporate culture needs to shift. The CEOs from the time of their recent crises have stepped down (without accepting responsibility), but contrary to what happened at Uber, they have been replaced with people from the same corporate culture. When problems are widespread in a company, its C-suite has some serious soul-searching to do.

I've written before about the philosophical implications of **responsibility** for corporate misdeeds. While individuals must bear ultimate responsibility for their actions, the body corporate can also have some measure of responsibility, not least as a result of the goals set by senior management and the culture in which employees operate. At Volkswagen, Uber and Wells Fargo, management must reflect on its actions and promote a corporate culture that inspires followers to achieve results without bending the law.

"Volkswagen's Emissions Scandal: How Could It Happen?" won second prize in the Corporate Sustainability track of the 2018 ***oikos Case Writing Competition****. In the 2017 edition of the competition,"****Uber and the Ethics of Sharing: Exploring the Societal Promises and Responsibilities of the Sharing Economy****" won second prize in the Corporate Sustainability track.*

"Wells Fargo Bank: The Fake Account Scandal" will soon be published by ***INSEAD Case Publishing****.*

N. Craig Smith *is the INSEAD Chaired Professor of Ethics and Social Responsibility, the Programme Director of the INSEAD* ***Healthcare Compliance Implementation Leadership Programme*** *and a specialist professor at the INSEAD* ***Corporate Governance Centre****. He also leads the INSEAD | ethiXbase* ***Ethics and Compliance Leadership Programme*** *and is a member of the Scientific Committee of social responsibility rating agency* ***Vigeo Eiris****. His latest book (with Eric Orts) is* **The Moral Responsibility of Firms***.*

Follow INSEAD Knowledge on ***Twitter*** *and* ***Facebook****.*

Find article at
https://knowledge.insead.edu/responsibility/the-critical-consequences-of-culture-9981

Download the Knowledge app for free