

From Yale to jail

Unlocking the dark pattern of organizational scandals

Guido Palazzo

The logo for the University of Lausanne (UNIL) is a stylized, cursive script in a light blue color. The word 'Unil' is written in a fluid, handwritten style, with the 'i' having a long, sweeping tail that extends to the right.

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HEC Lausanne

Lance Armstrong Is Stripped of His 7 Tour de France Titles

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Opinion

EDITORIAL

What Was Volkswagen Thinking?

By The Editorial Board
Sept. 23, 2015

Give this article



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Hot Startup Theranos Has Struggled With Its Blood-Test Technology

Silicon Valley lab, led by Elizabeth Holmes, is valued at \$9 billion but isn't using its technology for all the tests it offers

By [John Carreyrou](#) Following

Updated October 16, 2015

218 Gift unlocked article Listen (2 min)

From the Archives



On Theranos Inc.'s website, company founder Elizabeth Holmes holds up a [tiny vial to show](#) how the startup's "breakthrough advancements have [made it possible](#) to quickly process the full range of laboratory tests



PwC

'Disgraceful breach of trust': how PwC, one of the world's biggest accountancy firms, became mired in a tax scandal

PricewaterhouseCoopers used government secrets to help clients in Australia and the US avoid tax - a scandal that has forced resignations and threatens contracts worth hundreds of millions

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Henry Belot in Melbourne

Democracy Dies in Darkness

When Boeing put profit over quality in the 737 Max, the result was tragedy

Review by Jon Gertner
December 17, 2021 at 8:00 a.m. EST



Coming up
See the fu

at to Read | 2023's Best Books Fiction Nonfiction May Releases Critics' Reviews Editor

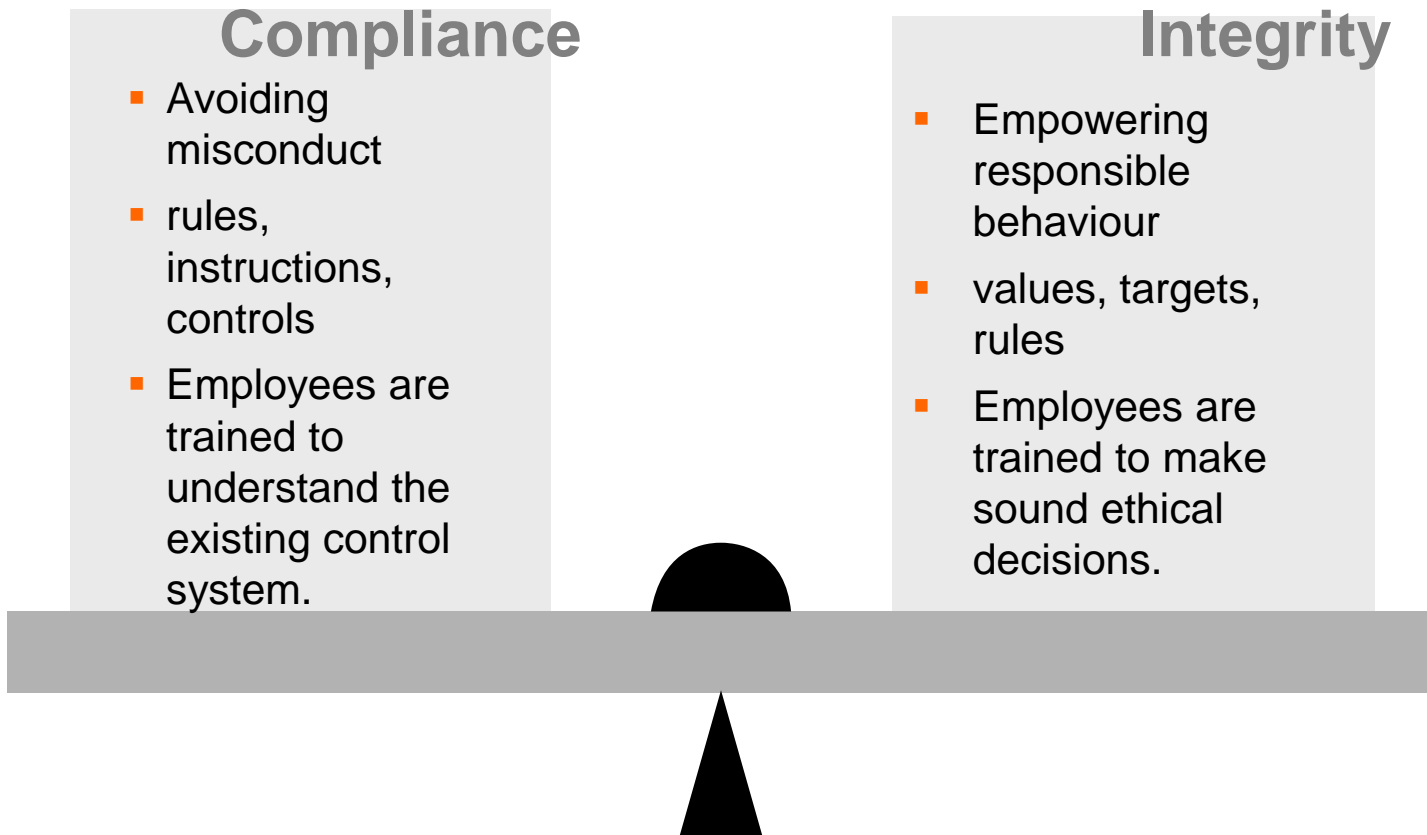
NONFICTION

How to Explain the Rise and Fall of WeWork?

Give this article



Compliance versus Integrity: Why do people in organizations follow the rules of the game?



Are compliance programs effective?

Penalty Year	Penalty in USD	Fines for Primary & Secondary Offenses paid by HSBC in the USA and the UK
2011	10.007.000	insurance violation; investor protection violation
2012	2.301.250.000	toxic securities abuses, banking violation, anti-money-laundering deficiencies, economic sanction violation
2013	266.607.400	banking violation, mortgage abuses, wage and hour violation, consumer protection violation, economic sanction violation
2014	1.117.500.000	mortgage abuses, interest rate benchmark manipulation, toxic securities abuses, investor protection violation; foreign exchange market manipulation, banking violation
2015	825.000	consumer protection violation
2016	649.916.500	mortgage abuses, banking violation, Servicemembers Civil Relief Act, consumer protection violation, wage and hour violation, toxic securities abuses
2017	209.618.861	banking violation, False Claims Act and related
2018	893.400.000	fraud, investor protection violation, securities issuance or trading violation, toxic securities abuses, mortgage abuses
2019	203.000.000	investor protection violation, tax violations, False Claims Act and related, employment discrimination, banking violation, pension plan violation
2020	7.755.000	investor protection violation
2021	79.497.038	insurance violation; anti-money-laundering deficiencies, labour standards violation

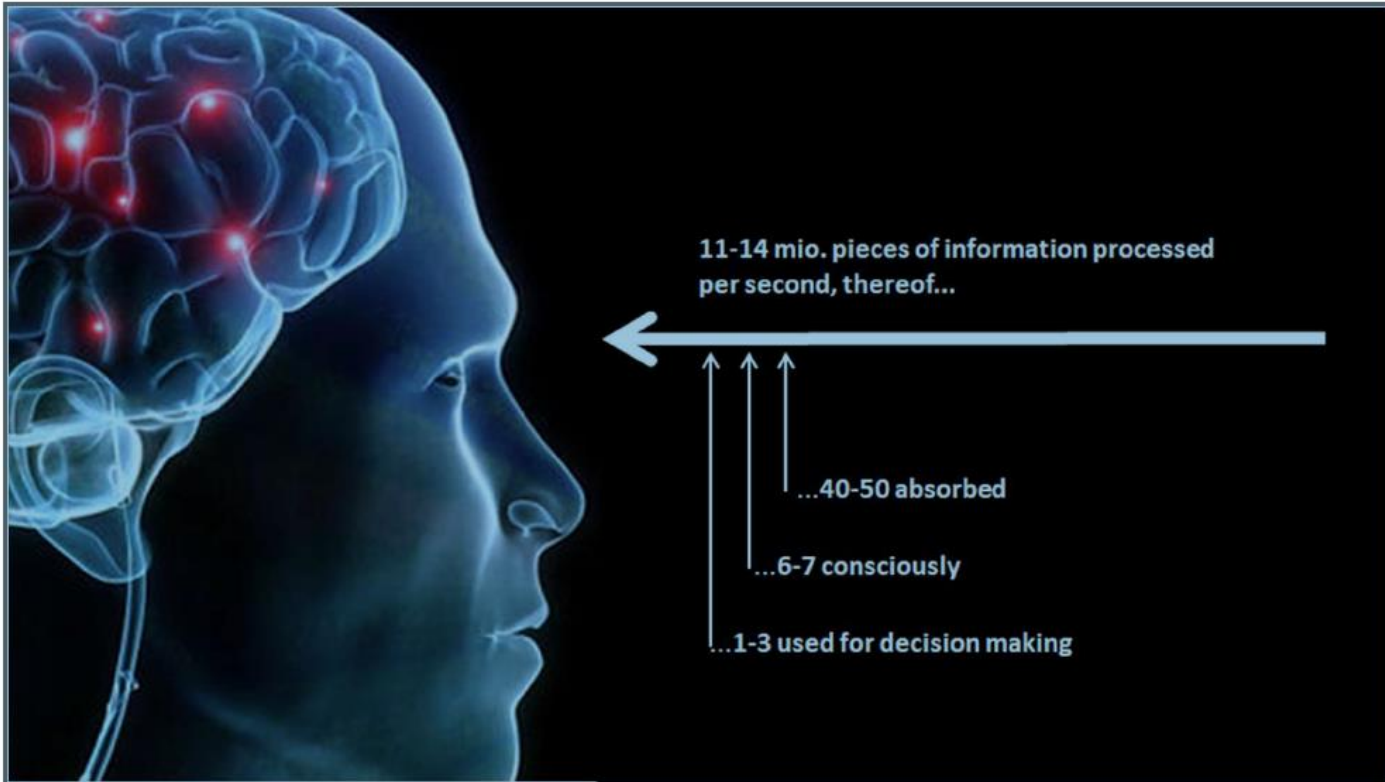
Source: Compiled & updated on 19 May 22 using data from: <https://violationtracker.goodjobsfirst.org/parent/hsbc>. Figures in USD

Why do people NOT follow the rules?

→ To protect organizations against rule breaking we need to understand why they break them

Imagine the typical
white collar criminal





Fundamental
Attribution Error

Moral superiority illusion

Even prisoners are convinced that they are morally superior to the average person

396

British Journal of Social Psychology (2014), 53, 396–403
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The British
Psychological Society

www.wileyonlinelibrary.com

Brief report

Behind bars but above the bar: Prisoners consider themselves more prosocial than non-prisoners

Constantine Sedikides^{1*}, Rosie Meek², Mark D. Alicke³ and Sarah Taylor³

¹Center for Research on Self and Identity, School of Psychology, University of Southampton, UK

²Centre for Criminology and Sociology, Royal Holloway University of London, UK

³Department of Psychology, Ohio University, Athens, Ohio, USA

That people evaluate themselves more favourably than their average peer on desirable characteristics – the better-than-average effect (BTAE) – is one of the most frequently cited instances of motivated self-enhancement. It has been argued, however, that the BTAE can be rational when the distribution of characteristics is skewed such that most people lie above the mean. We addressed whether the BTAE is present even among people liable to be objectively below average on such characteristics. Prisoners compared their standing on pro-social characteristics – such as kindness, morality, law abidingness –

Does your
t-shirt
influence
your
colleagues'
morality?



Gino, F., Ayal, S. & Ariely, D. 2009. Contagion and Differentiation in Unethical Behavior. The Effect of One Bad Apple on the Barrel. *Psychological Science*, 20 (3): 393-398

**Do you remember
your adventure in
the hot air balloon?**

Loftus, E. (2003) Our changeable memories: Legal and practical implications. *Nature Review Neuroscience* 4(3): 231–234.



A man in a grey hoodie is being escorted by police officers in suits. The man in the hoodie has a serious expression and is looking slightly to the left. The officers are also looking in the same direction. The background is dark and out of focus.

The myth of the bad apple

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What is the pattern that connects?

Inferno

a book project
on corporate
scandals





Dante's nine circles of inferno reloaded. Welcome to corporate hell!

1. Ideological distortion
2. Bad Bosses
3. Unrealistic Goals
4. Manipulative Language
5. Destructive Incentives
6. Ambiguous Rules
7. Perceived Unfairness
8. Dangerous Groups
9. Slippery Slope

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1. Ideological distortion



«We are doing
God's work.»

Jeff Skilling, Enron CEO



Harry Stonecipher, Boeing CEO in 2004

“When people say I changed the culture of Boeing, that was the intent, so that it’s run like a business rather than a great engineering firm. It is a great engineering firm, but people invest in a company because they want to make money.”

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2. Bad bosses

A close-up portrait of Martin Winterkorn, the former CEO of Volkswagen. He is an older man with short, graying hair, wearing glasses and a dark suit with a white shirt and a dark tie. He has a serious expression and is looking slightly to the right of the camera. The background is dark and out of focus.

Martin
Winterkorn,
Volkswagen CEO
2007-2015

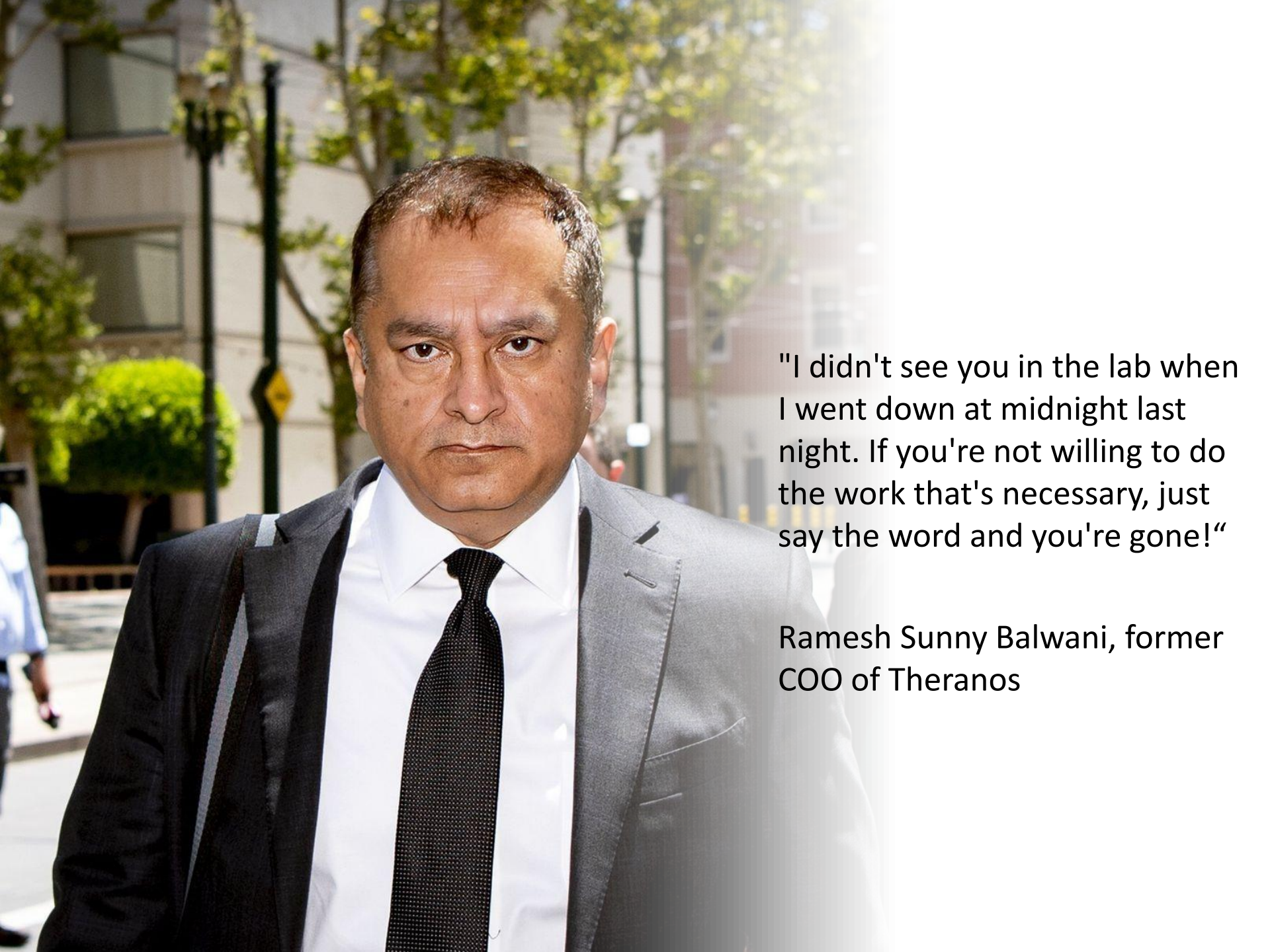
“This is North Korea minus
the concentration camps”

DER SPIEGEL, 18.8.2013

“I don’t care. We can change people in and out... The company is all that matters.”

Elizabeth Holmes’ answer to a head of department who warned against the 24/7 work pace.





"I didn't see you in the lab when I went down at midnight last night. If you're not willing to do the work that's necessary, just say the word and you're gone!"

Ramesh Sunny Balwani, former
COO of Theranos



"I will get the departures one way or another, through the window or through the door"
Didier Lombard, France Telecom

2007: 34 suicides
2008-10: 62 suicides
+ 41 attempts



**Lance
Armstrong
motivating
his team**

“motherfuckers”

“worthless shitbags”

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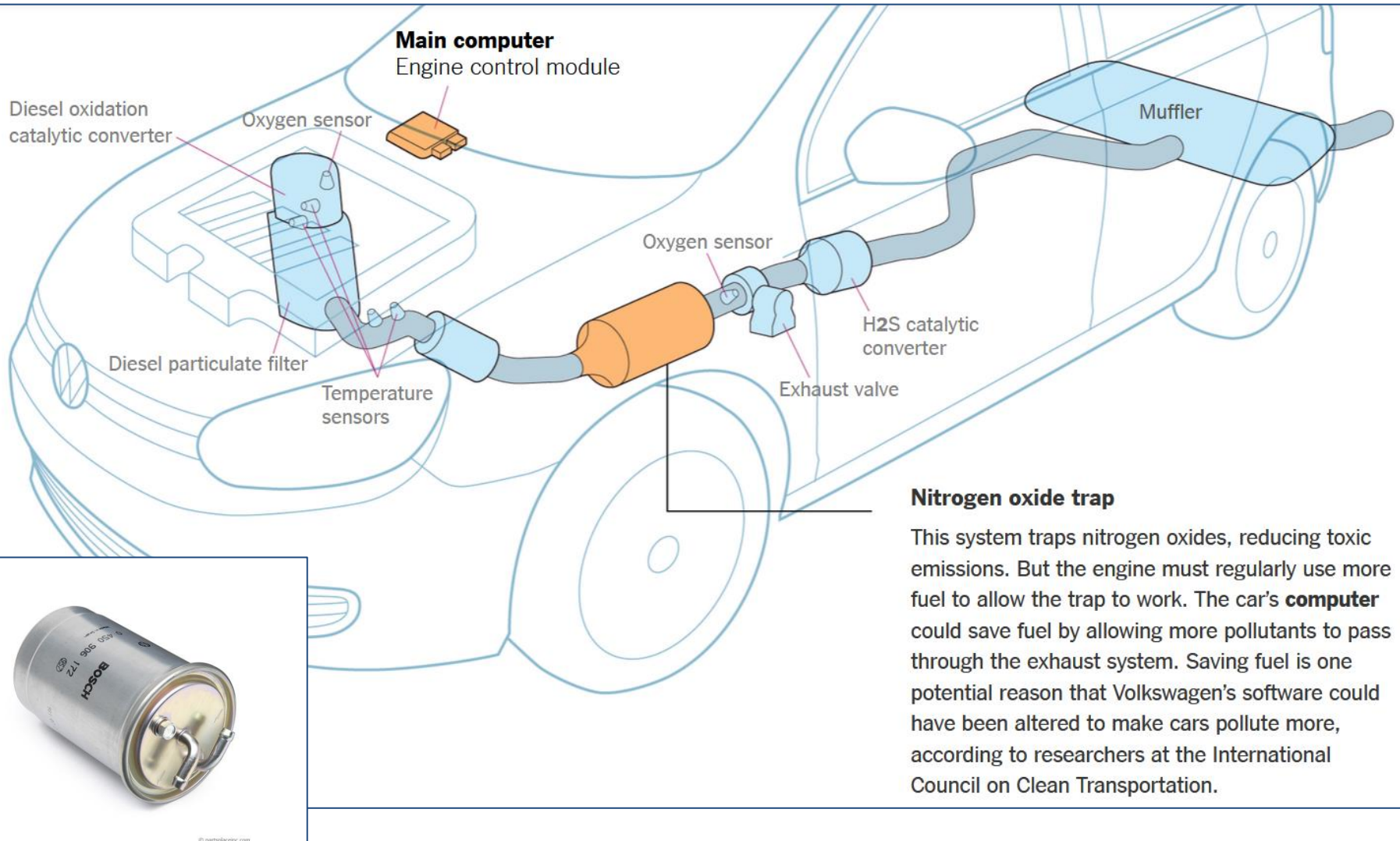
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3. Unrealistic goals

Building a diesel filter in less than two years that reduces emissions by 2/3



Nitrogen oxide trap

This system traps nitrogen oxides, reducing toxic emissions. But the engine must regularly use more fuel to allow the trap to work. The car's **computer** could save fuel by allowing more pollutants to pass through the exhaust system. Saving fuel is one potential reason that Volkswagen's software could have been altered to make cars pollute more, according to researchers at the International Council on Clean Transportation.



“It was ridiculous. I’d be on climbs, working as hard as I’d ever worked, producing exactly the same power, at the same weight, and right alongside me would be these big-assed guys, and they’d be chatting like we were on the flats! It was completely crazy.”

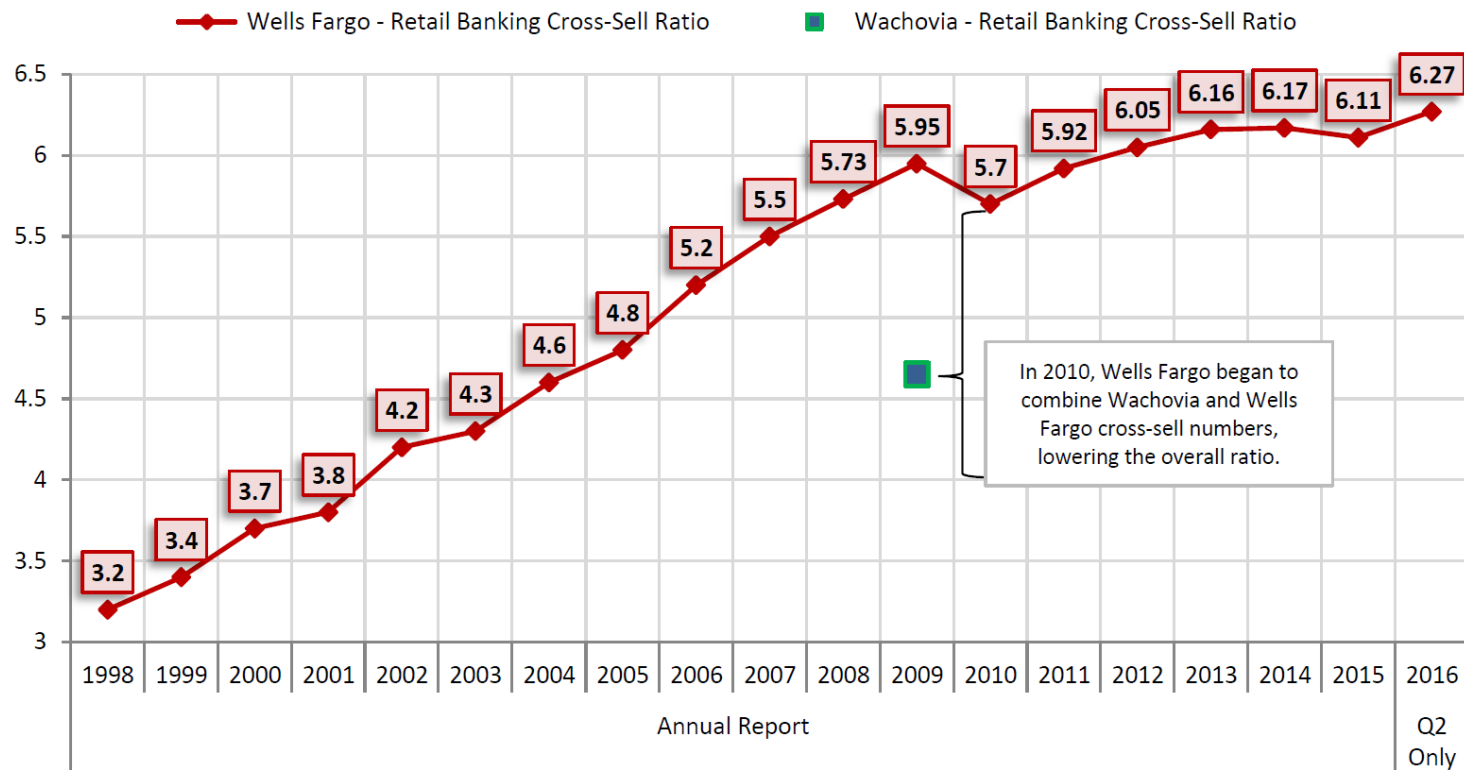
Former pro cyclist



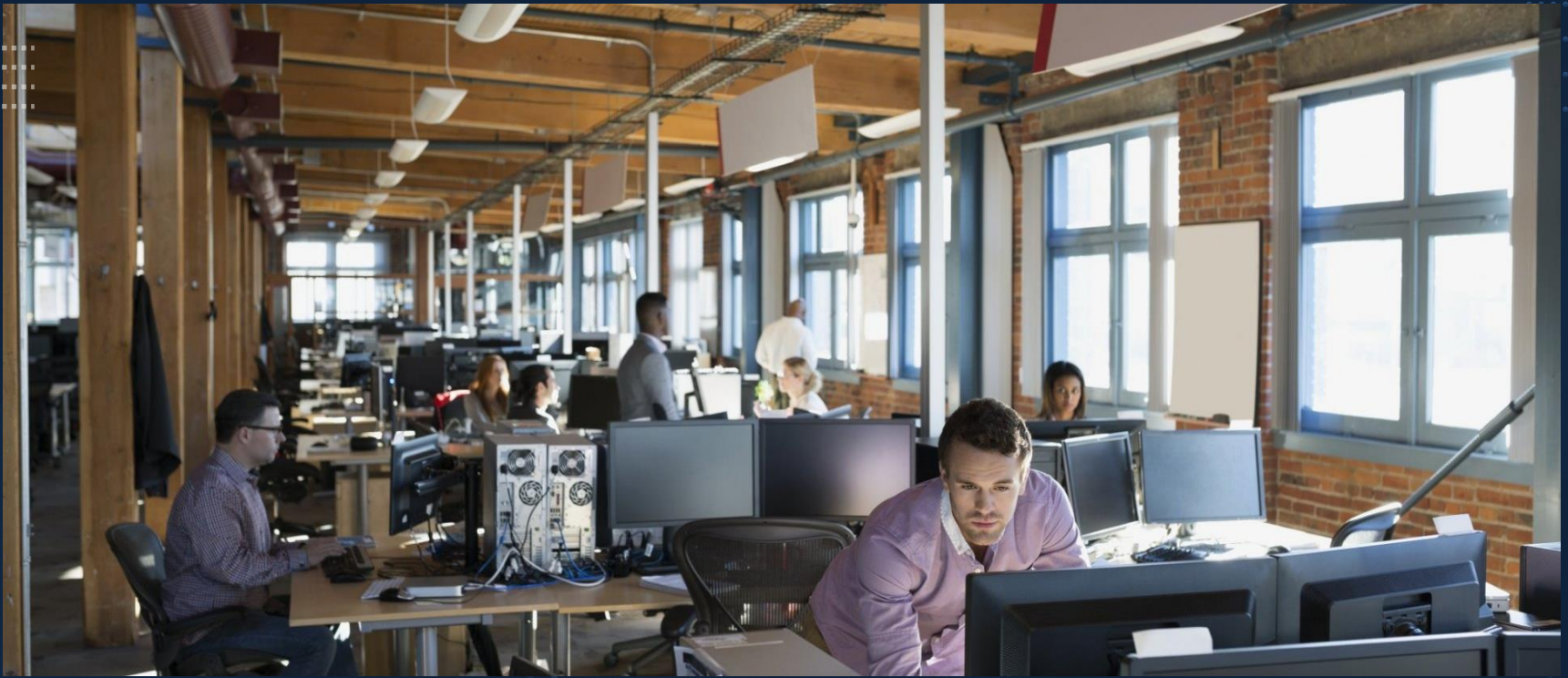
“Setting unrealistic deadlines and expectations was not due to a mistake in management’s plan. It WAS the plan.”
Former Theranos manager

Wells Fargo “Gr-eight” cross selling strategy

Figure 2: Wells Fargo Cross-Sell Ratio 1998 - Q2 2016²⁰



Sources: Wells Fargo annual reports. [Documented in Appendix]



“The last three months were hell. Even though I was reaching my sales goals, it was not enough for them. Every morning I had to sit with my boss and go over the previous day and every single customer’s relationship. I had to tell them why I didn’t force them into opening that third, fourth, fifth checking account.”

Former salesperson, Wells Fargo

“It’s literally impossible to “develop” more relationship aka. opening new accounts with clients, without “gaming”. That in my opinion is the technical reason why “the gr8 strategy” was a formula for disaster from the very beginning.”

Former manager, Wells Fargo

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4. Manipulative language

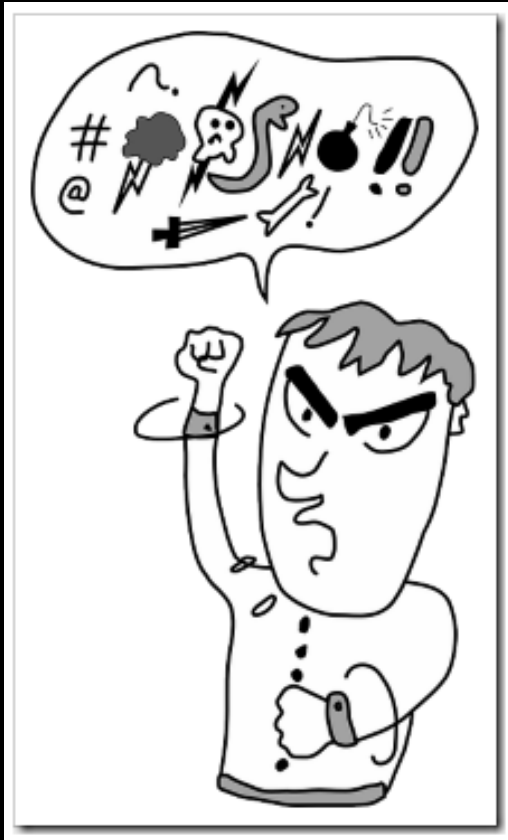
Let's play a game!

«Wall Street
Game»



«Community
Game»

The distorting impact of language



- Aggressive language games
- Morally disengaging language
- Cultish language

Ferdinand Piech, Volkswagen CEO on stage, 1993



—
“You have to kill
the enemy!”
—

Richard Fuld,
CEO Lehman Brothers



Training for NEXT at France Telecom

"We will make them understand that we are at war and that in any war there are deaths."

"The trainers explained that we were at war. First, we were shown England caught in pincers by the Nazis. Then we were shown Orange caught in pincers by Free, Bouygues and Nokia. «

"[The trainer also mentioned] the use of the method of "seppuku management" [= harakiri] to make the employee feel guilty in order to encourage him to resign".

Testimonials from managers who took the NEXT training



How pro cyclists spoke about doping



Names for the doping practice:

“sports medicine”, “recovery”,
“being professional”, “making
sure you stay healthy”,
“program”, “preparation”

Names for EPO:

“Poe”, “Edgar”, “the oil”,
“Giaca”, “specialty vitamins”,
“Zumo”, “O.J.”, “juice”,
“vitamin E”, “therapy”,
“liquid gold”

“hematocrit holiday”, UCI president Hein Verbruggen

The change management vocabulary at France Telecom

Verticalisation of HR

PIC (performance individuelle comparé)

Progress interviews

Development space

External mobility

Sending someone on a mission





The company as a cult

"Isn't he amazing? Some people think he's the Messiah."

Rebekah Neumann on her husband Adam Neumann,
Wework founder

Predicting scandals by analyzing the language of employees?



<http://pubsonline.informs.org/journal/mnsc>

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Tone at the Bottom: Measuring Corporate Misconduct Risk from the Text of Employee Reviews

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Abstract. This paper examines whether information extracted via text-based statistical methods applied to employee reviews left on the website Glassdoor.com can be used to develop indicators of corporate misconduct risk. We argue that inside information on the incidence of misconduct as well as the control environments and broader organizational cultures that contribute to its occurrence are likely to be widespread among employees and to be reflected in the text of these reviews. Our results show that information extracted from such text can be used to develop measures with useful properties for measuring misconduct risk. Specifically, the measures we develop clearly discriminate between high- and low-misconduct-risk firms and improve out-of-sample predictions of realized misconduct risk above and beyond other readily observable characteristics, such as Glassdoor firm ratings, firm size, performance, industry risk, violation history, and press coverage. We provide further evidence on the efficacy of our text-based measures of misconduct risk by showing that they are associated with future employee whistleblower complaints even after controlling for these same observable characteristics.

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5. Destructive incentives



Two side-effects of incentives

a tunnel vision or reality

a Darwinist corporate culture

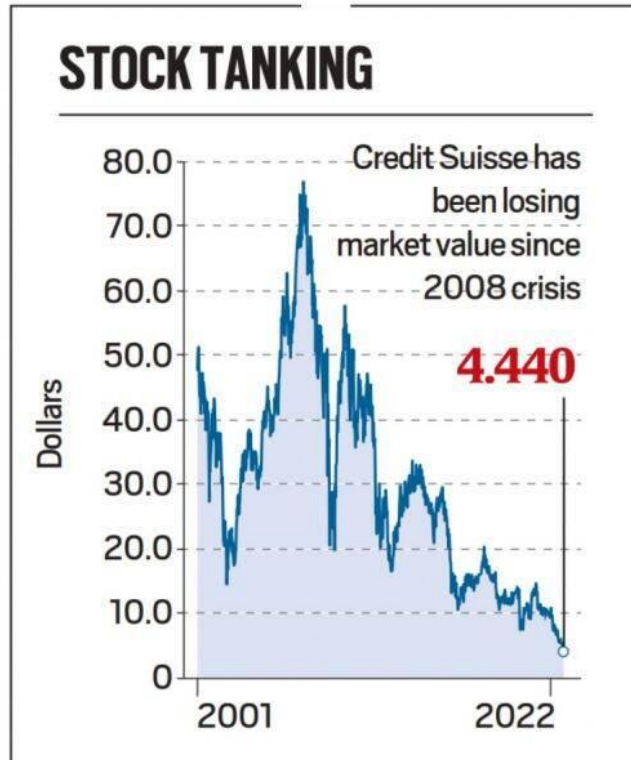
Tunnel vision and unintentional blindness – The Gorilla experiment



50% of participants in the experiment did NOT see the Gorilla

Credit Suisse: When Incentives get out of control

Bonus 2009-2020: 37 billion CHF
Stock value since 2008: -80%





One KPI (key performance indicator) at Volkswagen:
Beating Toyota and becoming number one in the world

Boeing 737max – A predictable crash?

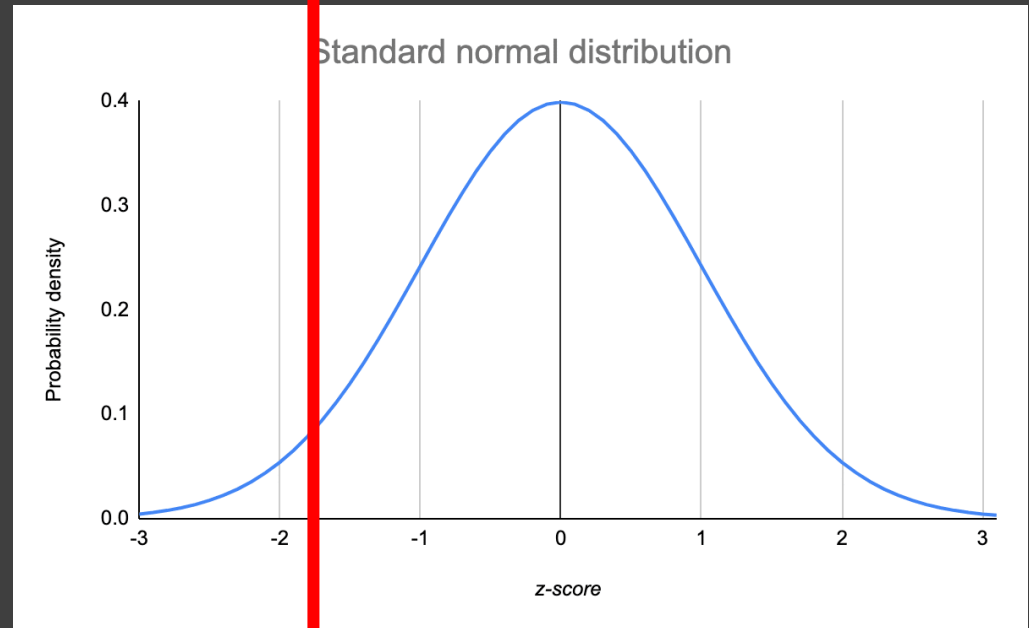


2 KPIs:
Speed & Cost



“Dead wood” Jack Welch

Gaussian distribution curve – the most toxic instrument ever used in Human Resources





Getting rid of the losers

Jeff Skilling, Enron CEO



Ranking and yanking

The HR tool PIC (Individual Comparative Performance) at France Telecom

"Every morning, a goal to fulfill. A board with our names inscribed was placed in the middle of the room, to be seen by everyone. Depending on the objectives achieved, or not. The sales made by each official of the previous day were highlighted. »

Employee, France Telecom

Sales ranking at Wells Fargo

Daily “Motivator” reports in which employees at every level were ranked against each other, with the results published daily. Daily meetings in which salespeople were ranked and had to justify their performance.



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6. Ambiguous rules

My first ethics workshop for a company, 1999





THE GOLDEN CAR

Testing cars for emissions and fuel efficiency in the lab

“Over the years,
Volkswagen has developed
a culture of tolerance for
violations of the rules.”

Hans-Dieter Pötsch, Chairman of the
Supervisory Board at Volkswagen



You can dope, but not too much



Official limit of hematocrit for
blood controls = 50%

Natural blood level of
hematocrit of professional
cyclists: around 42-43%

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7. Perceived unfairness



Lance Armstrong, 7 x Winner of the Tour de France 1999-2005



Unregulated
Diesel trucks



“[We have to] hammer on the abusers in every possible way... They are the culprits... They are reckless criminals.”

Richard Sackler, Purdue Pharma

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8. Dangerous groups



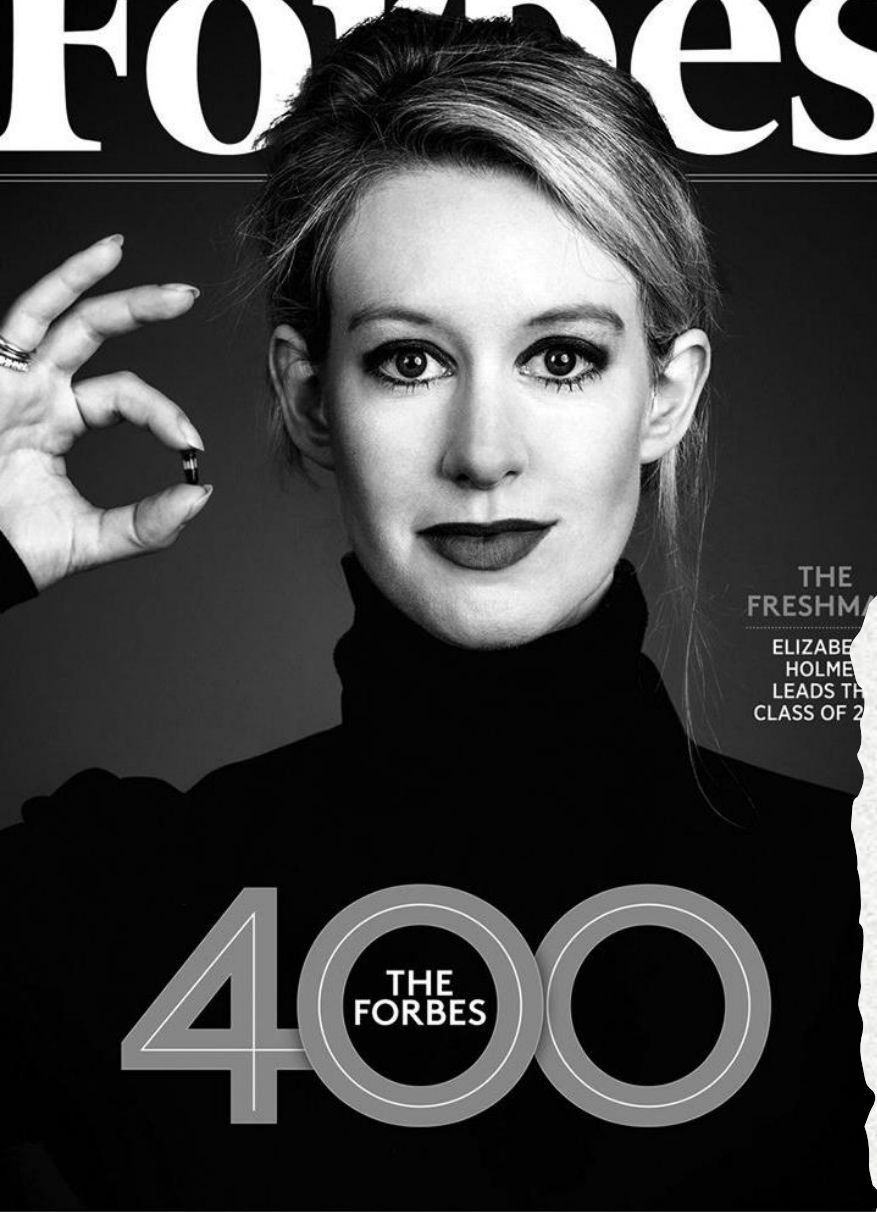
Types of dangerous groups

1. Being on an important mission for humankind
2. Arrogance of the industry leader
3. War against the world – ingroup/outgroup

THE DEFINITIVE RANKING OF THE RICHEST PEOPLE IN AMERICA

SPECIAL EDITION

Forbes



THE
FRESHMAN

ELIZABETH
HOLMES
LEADS THE
CLASS OF 2015

400
THE
FORBES

Being on a mission

“The miniLab is the most important thing humanity has ever built. If you do not believe this is the case, you should leave now.”

Elizabeth Holmes

“I was working with the product every single day seeing it fail time after time after time, I could go have a five-minute conversation with Elizabeth and fell like I was saving the world again.”

Tyler Shultz, whistleblower



Being part of a revolution

«A lifesaver»

Hillary Clinton

«A gift from nature»

Dr. Russel Portenoy, most important pain specialist in the USA, the «king of pain»

“We will revolutionize the treatment both of chronic cancer pain»

Richard Sackler to his sales team



**«We are up here and
everybody else is
down there.»**

Jeff Skilling, Enron CEO



“Elon puts rockets into space, he’s not afraid of the Federal Trade Commission.”

Alex Spiro, personal lawyer of Elon Musk



Uber drivers live in fear

→ Uber and Taxify drivers, who face daily threats from metered taxi drivers, robbers

Bela-Bela
well
weighted

RacingExpress

● NEWS PAGE 6

Land is begin
and end, Mal
tells propert

“We were convinced that we were creating opportunities for hundred thousand of people. We were doing this amazing thing and changing the world for the better. We felt that there was a place for us”.

“In some places, our local managers only moved with bodyguards. Taxi drivers would threaten them and their families. We were fighting to stay alive every day.”

Former Uber top manager



Uber will “break the back of the taxi medallion evil empire”

“The candidate is Uber, and the opponent is an asshole named Taxi.”

Trevor Kalanick



The effects of dangerous groups

- Blindness for warning signals
- Internal criticism is perceived as treason
- Outgroups are perceived as enemies, obstacles or idiots
- Rule violations are considered an unavoidable element of success

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9. Slippery Slope



**SLIPPERY
SLOPE**

«You do it once and it smells. You do it again and it smells less.» Enron
Trader



Dante's nine circles of inferno reloaded. Welcome to corporate hell!

1. Ideological distortion
2. Bad Bosses
3. Unrealistic Goals
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5. Destructive Incentives
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9. Slippery Slope

Ethics is a muscle that need to be trained

- Leverage your values
- Make ethics an ongoing topic of conversations
- Promote a culture of speaking up
- Train leaders to listen
- Motivate colleagues to support each other and become upstanders instead of bystanders
- Integrate ethics in hiring, promoting, incentivizing leaders

How do you protect yourself and your organization against the Inferno scenario?

**Please connect on LinkedIn to learn
more about the dark side of the force**

