Sales Incentives Impact on Corporate Culture: The Dark Side of Goals

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The views and opinions expressed in this presentation are those of the individuals and do not represent official policy, position or views of Arizona State University or Prudential Financial.

Overview

- Some timely examples

- Research on the dark side of goal setting – unintended consequences

- Application to the insurance industry

- Practical tips and solutions

- Discussion and additional questions

The Ubiquity of Goals

- Quarterly earnings goal
- Monthly sales goal
- Daily production quota
- Annual organizational objectives
- Strategic organizational goals
- Growth and market share goals
- Customer satisfaction goals
- Personal improvement goals

The Incentives Challenge

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AN ACADEMY CLASSIC
On the folly of rewarding A, while hoping for B
Steven Kerr

Table 1
Common Management Reward Follies

We hope for . . .	But we often reward . . .
• long-term growth; environmental responsibility	• quarterly earnings
• teamwork	• individual effort
• setting challenging "stretch" objectives	• achieving goals; "making the numbers"
• downsizing; rightsizing; delayering; restructuring	• adding staff; adding budget; adding Hay points
• commitment to total quality	• shipping on schedule, even with defects
• candor; surfacing bad news early	• reporting good news, whether it's true or not; agreeing with the boss, whether or not (s)he's right

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Anyone Recognize This Guy?

- Morningstar's 2015 "CEO of the Year"?

- **Goal:** to "cross-sell" products to increase profits

- Employees with "daily and hourly sales goals"
- "Four sales meetings" per day
- Must produce "10 to 20 solutions" a day
- Pressure to meet goals made life "hell"

Results

- Goal of cross-selling achieved...
- Via
  - Opening 1.5 million unauthorized deposit accounts
  - Issuing over 500,000 unauthorized credit cards
  - Creating fake email addresses to enroll customers

- Fined $185 million

- CEO – This is just a few "bad apples," fires 5,000 employees

- "Wells Fargo designed a system that produced bad behavior. When you find that out you gotta do something about it, and the big mistake was they didn't do something about it," Warren Buffett interview with CNN

How About This Guy?

- Former Secretary of Veteran's Affairs Eric Shinseki

- Goal to cut veteran wait times to 14 days
  - Pressure and incentives to do so
  - No new resources provided

- Goal achieved…
  - Through creation of a secret waitlist
  - Some patients died waiting for care

Other Examples

- Atlanta schools
  - Incentivized teachers fill out answers for their students on standardized tests.

- VW emissions scandal
  - Goal to become the biggest car company in the world

- Sears automotive
  - Made up problems to meet $147/hr. mechanic sales goal

- Miniscribe hard disks
  - Shipped physical bricks to customers to meet quarterly numbers
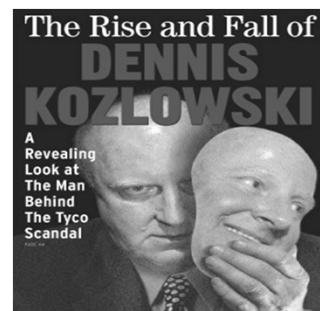
How Goals Work

- Motivate greater effort
- Direct attention towards goal-relevant activities
- Increase persistence
- Increase task-relevant knowledge

- But in some cases, do high goals work too well?

The "Dark Side" of Goals

Come to the dark side…

… of high performance goals

Research on the Dark Side of Goals

Academy of Management Journal
2004, Vol. 47, No. 3, 422–432.

6   *Academy of Management Perspectives*   February

E X C H A N G E

2009   Locke and Latham   17

Goals
Over

by Lisa D. Lo

Has Goal Setting Gone Wild, or Have Its Attackers Abandoned Good Scholarship?

by Edwin A. Lo

Available online at www.sciencedirect.com

ScienceDirect

Current Opinion in Psychology

ELSEVIER

Immoral goals: how goal setting may lead to unethical behavior
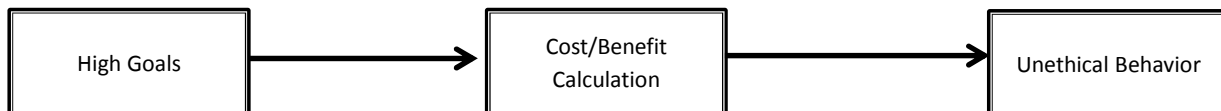Lisa D Ordóñez[1] and David T Welsh[2]

2003: Goal-setting theory rated the most important theory in the field of management

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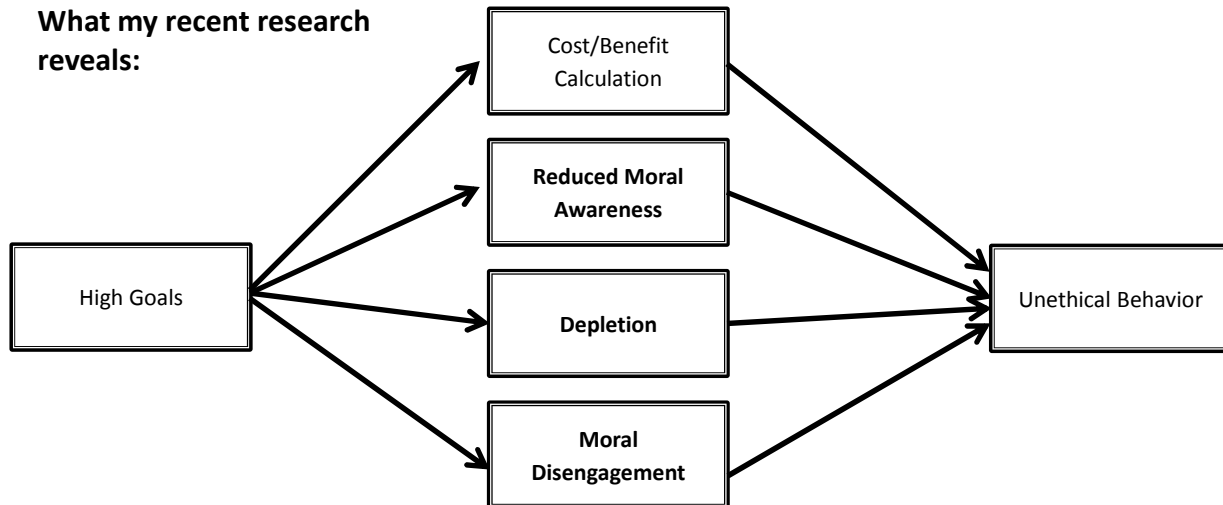# Understanding the Dark Side

What are the key mechanisms?

It was originally believed that goals simply changed the cost/benefit of behavior

| High Goals | → | Cost/Benefit Calculation | → | Unethical Behavior |

Understanding the Downside Risks

What my recent research reveals:

High Goals

Cost/Benefit Calculation

Reduced Moral Awareness

Depletion

Moral Disengagement

Unethical Behavior

Goals and Moral Awareness

- Goals can
  - Shift attention away from ethical issues
  - Narrow attention so that ethical issues are not considered

- Don't just motivate performance, motivate moral awareness as well

- Takeaway: Don't let a performance goal shift focus away from ethical issues

Goals:
- *Kill Luke*
- *Build Death Star*
- *Control Universe*

*Welsh & Ordóñez (2014, AMJ)

Goals and Depletion

- High goals require motivation, focus, and persistence

- Over time, motivation, focus, and persistence are depleting

- Those who are worn down are more likely to behave unethically

- Takeaway: Goals are motivating, but over time become depleting. Without recovery opportunities, a culture of compliance and an Ethical Tone at the Top the dark side emerges.

*Welsh & Ordóñez (2014, OBHDP)

Goals and Moral Disengagement

- Motivating questionable techniques in pursuit of the goal

- High goals force many employees to either fail or rationalize

- Goals provide a justification for unethical acts that benefit others

*Welsh, Baer, Miller, Cho, Sessions, & Garud (2016, AOM)

The Role of Goal Commitment

- Everyone seems to want to increase employee commitment to goals

- But, higher commitment may exacerbate moral disengagement
    - Unwillingness to abandon an unachievable goal
    - A "whatever it takes" mindset
    - Commitment to goal > commitment to ethics

I will stop at nothing until I get those droids

*Welsh, Baer, Miller, Cho, Sessions, & Garud (2016, AOM)

Life Insurance Industry

- In early to mid 1990's complaints regarding "churning" emerged.

- Churning is a practice in which life insurance agents persuaded customers to turn in or borrow from an existing life insurance policy and use the money to buy a new policy generating sales commission for the agent.

- Several insurance companies settled class action lawsuits, paid millions in regulatory fines and paid restitution to customers of totaling billions of dollars.

Consumer Financial Protection Bureau

- When properly implemented and monitored, reasonable incentives can benefit all stakeholders and the financial marketplace as a whole

- The flipside: "Tying bonuses or employment status to unrealistic sales goals or to the terms of transactions may intentionally or unintentionally encourage illegal practices."

Incentive-related problems

- Unrealistic quotas to sign consumers up for financial services:
  - If not properly monitored may incentivize employees achieve result without actual consent or by means of deception.

- Consumer harm can include:
  - unauthorized fees, improper collections activities, or negative effects on their credit scores.

- Sales benchmarks may encourage employees:
  - to market products deceptively to consumers who may not benefit from, or even qualify for, the products.

- Paying incentive based compensation:
  - may encourage employees to overcharge consumers, to place them in less favorable products than they qualify for, or sell them more credit or services than they requested or needed.
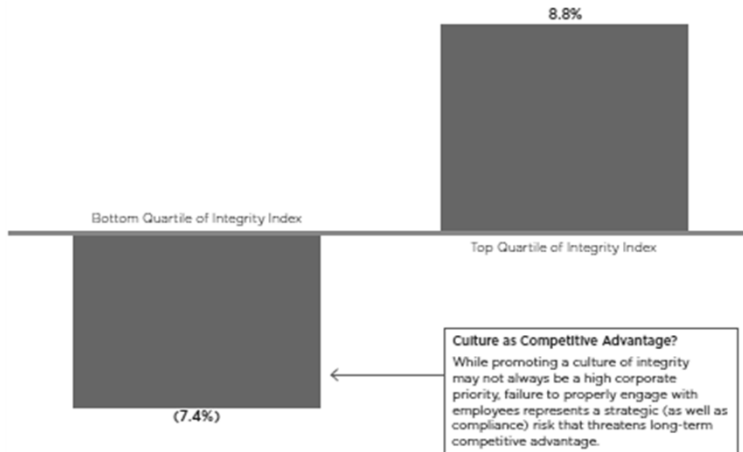
Sales Practice Oversight

- Board members and senior management should consider both the outcomes incentive programs seek to achieve and how they may incidentally incentivize outcomes that harm consumers.

- Directors and management should engage compliance personnel to design and implement oversight elements that address both intended and unintended outcomes and provide adequate resources to do so.

- "Tone from the top" should empower all employees to report suspected incidents of improper behavior without fear of retaliation, providing easily accessible means to do so.

Setting the Tone at the Top

- 2013 National Business Ethics Survey from the Ethics Resource Center

  - The percentage of companies providing ethics training rose from 74 percent to 81 percent between 2011 and 2013.

  - Two-thirds of companies (67 percent) included ethical conduct as a performance measure in employee evaluations, up from 60 percent in 2011.

  - Almost three out of four companies (74 percent) communicated internally about disciplinary actions when wrongdoing occurs.

  - Companies are doing a better job of holding workers accountable, imposing discipline for misconduct, and letting it be known that bad behavior is being punished.

Stronger Ethical Culture, Stronger Long-Term Shareholder Returns

8.8%

Bottom Quartile of Integrity Index

Top Quartile of Integrity Index

(7.4%)

Culture as Competitive Advantage?
While promoting a culture of integrity may not always be a high corporate priority, failure to properly engage with employees represents a strategic (as well as compliance) risk that threatens long-term competitive advantage.
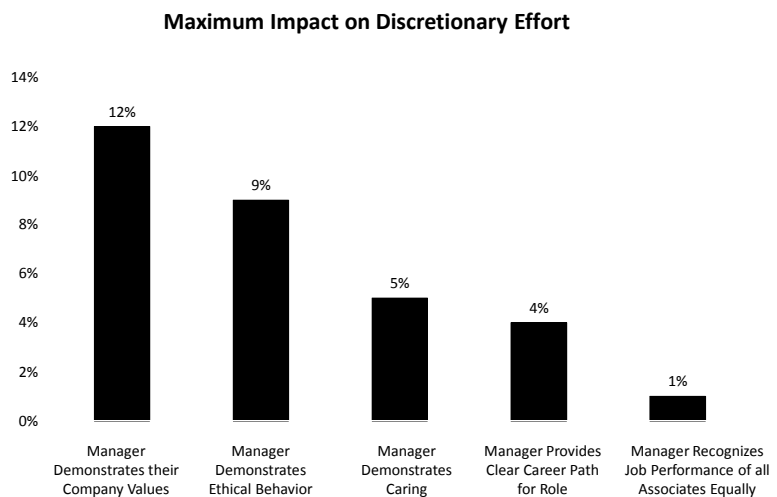
- **Major components of an ethical culture—comfort speaking up, direct manager leadership, openness of communication and tone at the top—have significant correlations with 10-year total shareholder return and company financial strength.**

- **Employee comfort speaking-up is the cultural component most highly correlated with increased total shareholder return.**

Employee Commitment Driven by Manager Integrity

Managers exhibiting corporate values can improve employees' performance by 12%

When associates think of "tone at the top", they often think of their immediate manager.

Actions will resonate more than words, and what managers say and do can have a profound impact on the culture.

Maximum Impact on Discretionary Effort

Manager Demonstrates their Company Values	Manager Demonstrates Ethical Behavior	Manager Demonstrates Caring	Manager Provides Clear Career Path for Role	Manager Recognizes Job Performance of all Associates Equally
12%	9%	5%	4%	1%

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Culture of Integrity Builds Reputation and Trust

Recruits Want Ethical Employers	Employees are More Committed to Ethical Companies	Consumers Desire Products from Ethical Companies
17% of job applicants selected "ethics" when asked to rate the top five attributes for assessing potential employers.	80% of employees between the ages of 18 and 30 will leave a company if they believe it has a weak brand or no association with ethics.	Research on "ethical consumerism", the desire to purchase products of an ethical company, found that nearly one-third of the 5,000 consumers surveyed were willing to pay a 5-10% premium for an "ethical product" over a conventional one.[1]

17%
# 80%
5-10%

27

Reversing the Dark Side

- Much of the dark side occurs when goals are used only as extrinsic motivators
  - E.g., *Hit this target, or else*

- The unethical behavior associated with goals largely disappears when goals are intrinsically motivating
  - E.g., *This goal is to help you learn and improve*

- Look for opportunities to design goals around learning and progress (the process) rather than a particular result (the outcome)

Wall Street, here I come…

*Welsh, Thiel, Bonner, & Bush (2017, AOM)

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Potential Implications

- Goals work!
- But beware of unintended consequences
  - When pursuing your own goals
  - When giving goals to others
  - When you think of or hear goal-related rationalizations/justifications/excuses
  - When you're more committed to the goal than to your moral standards
  - When the focus of the goal is on the outcome rather than the process itself

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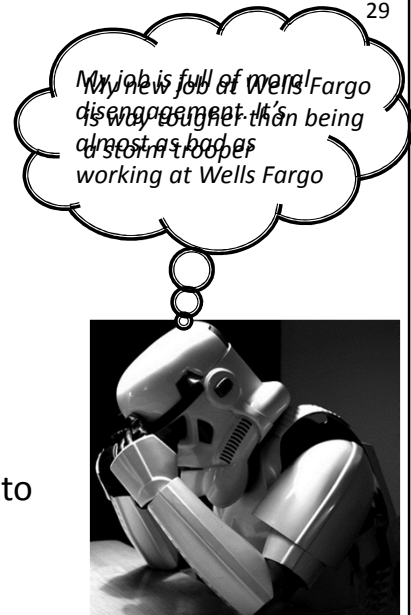
Thanks!

We look forward to future ideas, conversations, and collaborations

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