

# Leading to loss

Leaders, culture and fraud



## Leading to Loss

### Leaders, culture and fraud

Internal financial fraud is pervasive, globally.

According to the recent *Report to the Nations*, by the Association of Certified Fraud Examiners, the average organisation loses 5% of its total turnover to fraud each year.

For many it is a simple case of denial – “it will never happen to me”, while for others it is simply a cost of doing business – “this stuff just happens”.

Either way the amounts are huge, some \$3.6bn globally from the 2,504 cases the survey covered. The cost

does not stop there, however, as in some cases the regulatory fines and reputational damage dwarf the bottom-line impact. In the US, the Wells Fargo and VW cases totalled \$6bn in fines alone, not to mention reputational damage. In both cases, their leadership was held accountable for the wrongdoings in their organisations, with the culture they created being a key factor in the dishonest actions that took place.

The risk of internal fraud is not a risk for only the large organisations, even

the smallest businesses are exposed to the same risks. The numbers may change but the damage is proportionate.

The leadership team in any organisation has the ability to embed culture that either causes unnecessary financially dishonest behaviour or conversely serves to promote the highest level of ethical behaviour.

The choice is stark, but simple, as a leader will your approach lead to loss?

## Abstract

When a dozen experts – from the public and private sectors – met to discuss the influence of leadership in creating a workplace culture at high-risk of internal fraud, it became clear that many of the prevalent internal risk factors are influenced by an organisation's leadership team.

The ability of leaders to create a culture which increases the risk of internal fraud is profound – but do they recognise this?

This white paper looks beyond the issue of leadership and governance. Instead, it explores the key risk factors arising from the tone and manner in which an organisation is led. Using these risk factors, the paper also debates the role that leadership can play in driving a culture exposed to an increased threat of internal fraud and investigates what can be done to reverse the rise of unethical behaviour.

## Executive Summary

Fraud can impact any business, of any size, in any sector and at any level. It is indiscriminate.

Standing back, it is clear that high-profile fraud has influenced us all in some way, be it in our business or our personal lives.

The 2008 financial crisis cost millions of people their homes, livelihoods and triggered a global recession. The reasons for the collapse are well-documented: greed, complacency and market complexity. Many sources attributed failures in financial regulation and corporate governance, minimal checks and balances and ethical breaches, at all levels, leading to a short-term,

irresponsible approach to lending in the market. This was driven by leaders of organisations incentivising high risk-taking to achieve financial performance targets.

Over a decade on, with the impact of COVID-19, many are fearful that business and society will yet again discover fraud under the surface of many organisations. It is not difficult to see how this complacency could have easily resurfaced after the financial crash of 2008. The public is still cautious, with trust only slowly being rebuilt. As a result, it is more important than ever to shine a light on the prevalent risk factors, one of those being the leaders of organisations themselves. Leaders

need to be encouraged – however large or small their organisation – to not only be aware and cautious of the threat of internal fraud and financial crime, but also to be open-minded to the decisions they make in managing an organisation. Thinking about how these decisions have the potential to directly or indirectly cause pressures upon employees which can lead to fraud.

This recognition of the influence of leadership has caused the contributors to this paper to stand back and ask the question – **is fraud prevention influenced more by command and control or culture? Or a mix of the two?**

**'It has become clear that developing long-term, positive, cultural change is crucial to the future success of a business'**



Culture, undoubtedly, has a major impact on fraud within any business. This is becoming increasingly important, as leaders try to understand how they can influence workplace culture, without imposing additional, stringent rules and regulations. As a result, we are left with a contradictory choice – we want to build a culture of trust, yet we may feel safer relying on stringent rules of governance which, in themselves, can imply distrust. Trust should be protected and

nurtured as it continues to be a key differentiator in the marketplace.

It has become clear that developing long-term, positive, cultural change is crucial to the future success of a business and that **culture itself can act as a key fraud prevention tool.**

Fraud and trust are both guided by human behaviour which is driven by our reactions and emotions. Organisational culture therefore has a pivotal role to play. This white paper highlights the key risk

factors of the consequences of poor leadership and explores examples of bad practice where culture, driven by leaders, has caused a disenchanted environment for employees which resulted in fraud. The paper also offers practical tips for organisations to inspire much-needed change.

In our afterword we comment on why leadership is now, more than ever, key to dealing with internal fraud risk arising from the damage to the economy caused by COVID-19.

## Foreword

*By Arun Chauhan, founder and director, Tenet Compliance & Litigation.*



Increasing awareness of fraud and how to combat it has been at the heart of Tenet since it began in 2016. Through my role as trustee and deputy chair of the counter-fraud charity The Fraud Advisory Panel and regular contributions in the media for the BBC or at conferences, sharing knowledge to help people combat fraud has always been important for me.

At Tenet, as well as dealing with cases of fraud when suspected or detected, we also spend time working closely with organisations

to understand how leadership behaviours which promote a culture of greater employee engagement go to mitigating the risk of fraud.

Over many years, the role of leadership in tackling fraud has come under increased focus where increased regulation alone has failed. However, the role of leadership inadvertently increasing fraud risk has not been addressed in any similar level of detail. This white paper has provided an opportunity to gain a wider understanding of the myriad factors at play, drawing on the expertise of a number of sector specialists and reviewing the latest research available to address that exact issue – leadership's ability to influence the risk of internal fraud.

This research has reinforced my experience of leadership's recognition of their role in creating an ethical working environment and has shone a light on the change in culture that is much-needed.

This is not just about supporting change today; it is about creating a springboard for leaders to consider how they, and the next generation of leaders, will focus on the significant influence of culture on employees' behaviour in their organisations. Integrity is important to the present generation and those that follow. This is our time to build a platform that sets the course for leaders for many years to come.

'This is our time to build a platform that sets the course for leaders for many years to come'

## Thank You

We would like to thank the following people for taking the time to contribute to our roundtable debate and providing valuable expertise which is drawn upon throughout this document:



### DANIEL BELCHER

**Senior Education Lead, SSAT,  
The Schools,  
Students and Teachers Network**

Dan designs and delivers professional development and holds an MA in educational leadership and innovation. Currently working on his doctorate, his research focuses on moral leadership in an age of accountability.



### JAMES CASHMORE

**Chief Risk Officer, OakNorth Bank**

With more than 30 years' experience in financial services, James has led both Risk and Strategy functions in the UK Corporate Banking division of RBS. He became involved in the challenger bank space when he created the business plan for the proposed 'Williams & Glyn' spin-out from RBS and was a member of the executive team running that division as a separate bank for 4 years. He joined challenger bank OakNorth during its application for a banking licence.



### DAVID CLARKE

**Head of Integrity and Due Diligence,  
Guildhawk and Chairman of the  
Fraud Advisory Panel**

Former Chief Superintendent and member of the Attorney General's led Fraud Review for the UK Government, David is the chairman of the Fraud Advisory Panel, the voice of the counter-fraud community in the UK and regular commentator on the BBC.



### JON DARLING

**Head of Internal Audit,  
University of Birmingham**

Jon has almost 20 years' experience in internal audit and risk management and has worked for organisations in the public, private and third sectors including Birmingham City Council, Mid-Counties Cooperative, KPMG and RWE Npower before taking up his university role in 2016.



### ANDY DODD

**Managing Director,  
Hitachi Capital Invoice Finance**

With more than 25 years of financial services experience, Andy began his career at Barclays Bank before moving to roles at Euro Sales Finance and RBS. After setting up an independent sales finance business in the Midlands, he joined Hitachi Capital in 2016 and is an active member of UK Finance and previously sat on its executive committee.



### CATHERINE FLEUTY

**Director of Financial Crime  
Compliance, M&G Plc**

Catherine has more than 26 years' experience in financial services and has worked in a financial crime compliance role at M&G for 12 years. As Director of Financial Crime Compliance at the newly listed M&G plc, Catherine has been central to developing the company's approach to combating financial crime risk. Catherine has also received an outstanding achievement award for her post-graduate diploma in financial crime compliance.



## Foreword Continued...



### JEAN-MICHEL GARCIA-ALVAREZ

**Head of Internal Audit and Data Protection Officer, OakNorth Bank**

With 20 years' international experience in financial services internal audit and data protection, Jean-Michel is the key decision maker on cyber preparedness, response and recovery at OakNorth, Europe's fastest growing fintech company. He joined the company before it was fully authorised as a bank in early 2015.



### NATASHA MADDOCK

**Deputy General Counsel, GBG Group**

Natasha is a qualified lawyer and senior leader at GBG, a global technology specialist in identity and location data intelligence and fraud and compliance management. She is responsible for leading the group's legal function and provides advice in relation to legal, regulatory and ethical issues, enabling GBG to achieve its strategic goals in a sustainable way. Before GBG, Natasha worked at a boutique, regional law firm and a market-leading alternative legal practice.



### NICK STAGG

**Psychotherapist, Nick Stagg Therapy**

Nick managed a wide variety of teams and projects during his 15 years at RBS which gave him the chance to observe how humans operate in the workplace. He did further training in addition to his psychology degree and became a self-employed psychotherapist in 2010. He has also worked for the NHS for four years, providing additional insight into human thought and behaviour.

• •

• •

• •

• •

• •



### JOANNE TILLEY

**Executive Director, Corporate Services, emh group**

Jo has been working for housing association emh group since 2004, working in housing management, care and support and now HR, governance, learning and development, health and safety, quality, compliance, resident engagement, communications and new business. She is a member of the Chartered Institute of Housing and Chair of the National Housing Federation's Midlands Governance Forum.



### JONATHAN WHEATCROFT

**Director, Forensic Services, PwC**

As a seasoned investigator, Jonathan leads PwC's Midland Forensic Service team of over 40 staff comprising investigators, technologists, compliance advisers and disputes specialists. He joined PwC in 2002, qualifying as an external auditor before moving to forensic services in 2006 and more recently, spent three years in Istanbul leading PwC Turkey's forensic team.



‘Fraud is undoubtedly a major problem for the UK economy and businesses’



## Introduction: The high cost of fraud

According to Crowe's

### **Financial Cost of Fraud 2019**

report, fraud is costing the global economy £3.89 trillion each year, a figure which has risen by 56% over the last decade. For the UK alone, focused, sector-by-sector research puts this number close to £190 billion per year. The report also suggests the average organisation should expect fraud-related losses to account for between 3% and 6% of expenditure.

Fraud is undoubtedly a major problem for the UK economy and businesses have a responsibility to step up to the challenge of dealing with it effectively. That starts from within one's own organisation.

The cost can also go beyond the immediate financial losses, with loss of trust in an organisation also likely to impact negatively on the bottom line.

### **The 2018 Reputation**

**Dividend Report**, now in its 11th year, estimates that corporate reputation is now directly responsible for an average of 38% of market capitalisation across the FTSE 100 and 250: a total of £1,062 billion of shareholder value, 5% more than last year.

The **2020 Edelman Trust Barometer** flags job insecurity and inequality as key concerns. Identifying that ethical behaviours are as important, to both buyers and employees, as

simply being good at what you do.

However, the Institute of Business Ethics' **Attitudes of the British Public to Business Ethics 2019** report highlights that only 57% of people believe that business behaves ethically, a figure which has decreased since 2018.

The **2020 Report to the Nations** global study on occupational fraud, published by the Association of Certified Fraud Examiners, reviewed over 2,500 cases in 125 countries causing losses exceeding \$3.6bn. Relevant to this white paper is the finding that excessive pressure from within an organisation is now a recognised red flag to insider fraud risk.

## The Alternative Fraud Triangle<sup>©2018</sup>

The traditional fraud triangle is frequently credited to Edwin Sutherland and Donald Cressey, stemming from their Differential Association Theory (1966). This suggests that fraudulent conduct is not typically driven by greed, but by pressure upon an individual to cause them to act or make choices that are ultimately dishonest. That pressure may be financial pressure at home, gambling, addictions or

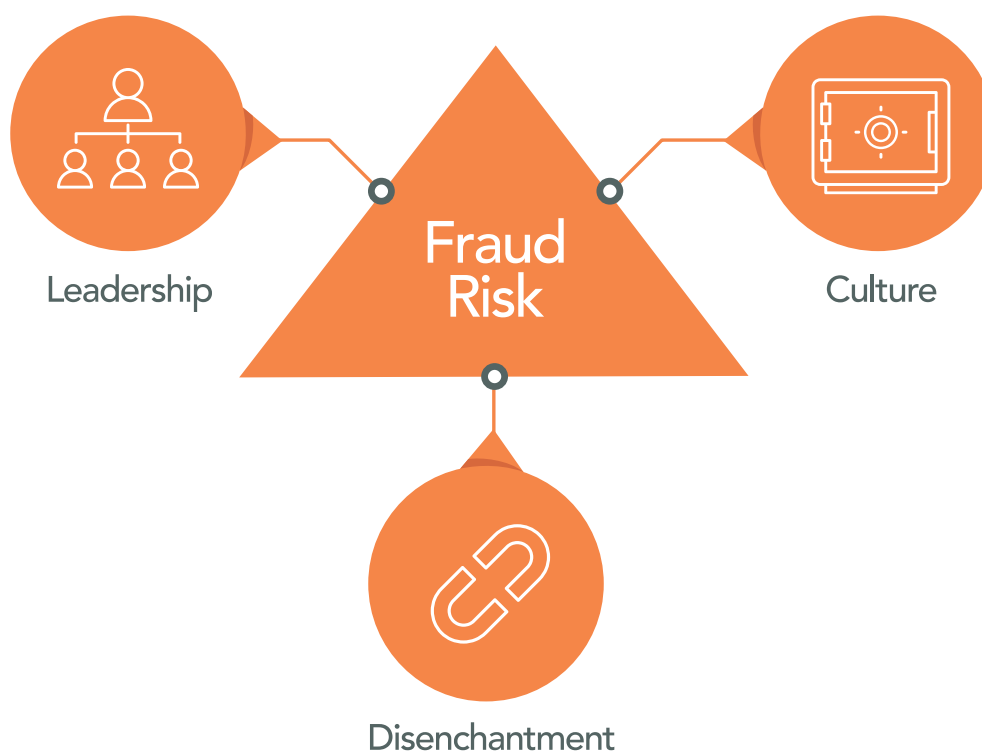
other factors. This then causes a person to seek the opportunity to make financial gain and rationalise their actions, for example, they may believe they deserve more money than other employees so they seek the opportunity to make this happen.

However, in all sectors, we often overlook exactly how pressure may be created and whether a

subset of this pressure is created by the demands of employers and therefore, directly attributable to leadership.

The alternative fraud triangle is at the heart of this white paper. If a leadership team gets the culture of their organisation wrong, they increase the risk of disenchanted employees and, in turn, that creates greater risk of fraud.

## The Alternative Fraud Triangle<sup>©2018</sup>





## The Influence of Leadership

Naturally, leaders want to perform to the best of their ability, achieving – or even surpassing – targets and objectives while driving team and business performance forward.

However, when a leader's financial or non-financial ambitions cascade down to individual targets for team members, without an understanding or appreciation of the various challenges facing those employees, problems can arise.

Self-protection can come into play, as leaders unknowingly pass on the pressures they're under to their teams, creating a culture which can prompt their employees to act in a manner which invites risk into the

business and potentially normalises such risk.

Ultimately, as they pass these pressures to their teams, leaders will begin to see a disconnected and pressurised culture surface which leads employees to feel disengaged, frustrated and unfairly treated.

This disengagement, coupled with a culture of driving for results at any cost, often with short-term objectives, can lead to employee decision making which is misaligned with the 'true north' of their moral compass. All of us – especially when emotionally drained and stressed – are susceptible to poor decision making. Fraud is not black and white – it has various shades of grey.

As such, leaders carry a responsibility to recognise and – where possible – mitigate the pressures that members of their team are under. Leaders should not turn a blind eye to how employees are achieving the ambitious targets created, instead they should look to adjusting targets to align with the true capabilities of their teams.

Some organisations are already looking to take action. In an attempt to reduce team pressures and boost performance, the NHS has signalled how its four-hour accident and emergency patient target is likely to be brought to an end following a winter of the worst figures on record for the health service.

**'Targets –  
or any arbitrary measure  
forced down a hierarchy –  
will make a system worse'**

John Seddon  
Occupational Psychologist & Researcher  
University of Birmingham

## The Growing Importance of an Ethical Culture

The workplace is evolving like never before, with the rapid rise of the gig economy and remote or flexible working practices becoming increasingly common (especially in light of Covid19 pressure). The growing influx of Millennial and Generation Z talent is also forcing further changes to the workplace as they bring about a culture built on emotional intelligence and increased engagement.

It's anticipated that by 2025, millennials will make up over **75% of the total workforce** and **research** shows they're looking to work for organisations with a clearly defined

and evident ethical culture.

This creates the ever-pressing need for businesses and organisations to focus on ethical and moral values and demonstrate a strong social purpose if they want to remain competitive and attract the best talent in a demanding, candidate-led marketplace.

Leaders can 'set the weather' for an organisation's culture – but do they realise the true magnitude of their influence and how getting it wrong has the potential to put an organisation at a higher risk of internal fraud?

### Edelman's 2020 Trust Barometer

also suggests that workplace trust is now built on both competence and ethics, with ethical drivers being seen as over three times more important to company trust than competence.

However, to move towards a more ethical and positive workplace culture, leaders first need to understand and recognise the extent of their influence on workplace culture and how, if not managed properly, this can lead to an increased risk of internal fraud.

'By 2025, millennials will make up over 75% of the total workforce'

# Do leaders recognise their influence in creating a workplace culture which increases the risk of employees acting dishonestly?

## Intense Pressures

Businesses and organisations ultimately want to succeed and grow, be that for personal ambition, shareholder value or simply to improve marketplace position. As such, ambitious business objectives will often translate into performance or cost-cutting targets which will cascade down throughout the different hierarchies of an organisation. These targets are often very high and, in some cases, entirely

unachievable through ethical or moral means. This is where a leader, intuitively at least, will be aware of the challenging targets they set, but turn a blind eye to exactly how they are being achieved.

Leaders at each level are then held accountable for ensuring these targets are achieved and, as a result, that business performance continues to improve.

'It's the age of accountability in the workplace, leaders are held responsible for improving results and performance. However, successful leadership is about more than viewing a team as a set of results'

Daniel Belcher,  
The Schools, Students  
and Teachers Network

As teams are tasked with meeting unachievable targets, they can begin to lose confidence in their abilities as they start to fall short of the goals laid out for them by their leaders. In turn, this may diminish morale and motivation across the whole organisation.

If an employee doesn't feel their contribution to an organisation's progress will be recognised because it falls short of unrealistic goals, they are likely to become disenchanted. They will feel they are being asked to achieve the impossible and they may even see

others achieving their targets by bending the rules.

That leaves a choice – conform or risk under-performing and face the repercussions that brings. This results in a divergence between employees doing the right thing and employees doing the right thing for themselves – with a preference for the latter. They simply turn up to work and do what they need to do to preserve their income, with little or no investment or interest in their organisation's successes.

'Culture drives behaviour. The wrong culture instils fear – a crucial component of dishonest behaviour'

Andy Dodd  
Hitachi Capital Invoice Finance



## Intense Pressures Continued...

When leaders push employees beyond their capacity or capabilities, driving for success at any cost, it can lead to corners being cut, as individuals do whatever it takes to keep the 'wolf' from their door. When employees are made to feel as though their job is at stake if they are to falter on high targets, self-preservation will kick in. They will seek alternative means to help inflate or artificially boost performance. Leaders therefore need not worry about a lone wolf, but rather that by creating an environment of conformity bias, they are slowly constructing a pack of wolves.

Instead, a successful leader should seek to understand the true performance capability of their team, reducing pressures where possible

and instilling confidence by regularly recognising the quality of work and efforts and sharing ideas to help overcome challenges. In turn, this will create a more positive culture, away from arbitrary targets and statistics.

However, it's not only targets driving leadership pressures – leaders' self-esteem also plays a part. By comparing themselves to peers and competitors, leaders can unintentionally intensify pressures on their team as they strive to demonstrate higher performance and personal success.

Instead, leaders should focus on the importance of doing what is right for the successful long-term future of the organisation and think beyond short-term performance measures. Success will follow.

'If leaders push to become 'the best' at everything, it can actually lead to cutting corners'

James Cashmore  
OakNorth Bank

'Leaders often compare themselves to people in other organisations. This only acts to increase the pressures they face'

David Clarke  
Guildhawk

## Malaise in Leadership

Culture does not change overnight. It is also not something that those at the top of an organisation can simply decide on. A business' culture is ultimately underpinned by the feelings and engagement of its employees. To influence culture change, leaders first need to seek out the behaviours leading to the existing culture and look to build on the positives and eliminate the negatives.

If leaders set unrealistic targets on a regular basis, employees will develop a sense of malaise in their ability, resulting in a loss of trust. That trust is integral to a healthy working culture.

Building trust is about moving beyond the old-school, autocratic, 'command and control' leadership style. Instead, leaders need to first demonstrate trust in their teams – taking the time to talk with them,

gain a deeper understanding of their motivations and show them that their efforts are valued.

If a team feels trusted, they'll feel more confident in the abilities of their leaders and work harder to ethically achieve the goals of the collective. Over time, this will result in a more positive working culture which fosters stronger collaboration and information sharing, as well as improved overall performance.

As a result of this need to show value, leaders need to put careful thought into the reward incentives they implement for their teams. For example, bonuses promised to employees for exceeding unrealistic targets are more likely to prompt dishonest behaviour from those focused on achieving the prize. Whereas employees who focus on the realism of the target presented, remaining true to ethical behaviour, will sense the difficulty – or indeed

impossibility – of the task. This can cause disillusionment.

Rather than basing rewards on arbitrary measures of performance, it is possible to implement behaviour-related rewards. By demonstrating how good behaviour is valued through reward systems, leaders can provide a greater incentive for employees to prioritise ethics and morals within the workplace.

It's also important to listen to team members and understand the rewards they would truly value. We're living in an age of experience – people are valuing memories, events and activities. As a result, employees can often appreciate increased holiday entitlements, investments in workplace improvements or experience days ahead of the more traditional one-off monetary bonuses.

'Culture isn't top-down. It's what people see around them. To drive culture change, embedded behaviours influencing it need to change too'

Nick Stagg  
Nick Stagg Therapy

'A culture where bonuses are linked to ethical performance is perfectly possible'

Jean-Michel Garcia Alvarez  
OakNorth Bank

'Getting the right reward system in place is key. Employees need to feel invested in the future of their organisation, fairly treated and appropriately rewarded'

Natasha Maddock  
GBG



## The importance of recognising influence

The influence of leadership is well-proven and leaders themselves should recognise their influence on the culture, engagement and performance of their team. However, there is a sense that a positive culture is simply 'nice to have' and not a necessity. If the board of an organisation is asked 'why is culture important to an organisation?', it is unlikely that each board member will articulate their answer in the same way.

When a leader advances within an organisation, there are more people looking up to them, depending on their ability and watching their decision making. However, as leaders continue to

work within their workplace 'bubble', they do not always fully appreciate the layers of other leaders' teams beneath them. Yet it is those teams that leaders influence the most, as they are the ones watching to learn how a leader is expected to grow and develop.

In order to make the right decisions, it is essential that leaders are aware of the influence of their decisions and actions – both for the organisation and for the teams looking up to them. In large and small organisations, consistency in approach can help drive positive behaviours for the long-term and reap wider benefits.

'Good leaders have the ability to recognise their influence, Bad leaders don't'

Jon Darling  
University of Birmingham

• • • • •  
• •

'As you move up within an organisation, it's not always easy to notice when the goldfish bowl gets bigger and your actions are amplified'

Arun Chauhan  
Tenet Compliance & Litigation



## Duty to Educate

As a leader, recognising one's own influence and getting the right culture in place is only the start. For a positive culture to act as an effective control against internal frauds, leaders have a pivotal role to play in educating their teams about how to identify fraud and support employees when reporting risks and helping employees understand why it is important to do so.

A culture of information sharing can encourage employees to utilise whistleblowing policies when necessary. However, if those employees are unaware of the red flags, how to report them or how to

assure anonymity, they may not feel confident enough to report when something simply does not 'seem' right. Worse still, if they work in a culture of mistrust or self-protection, the chances of them engaging as your 'eyes and ears' is limited.

Leaders need to ensure that the systems and controls in place do not just gather dust on shelf, but are widely understood, work for their people – in that they reflect what takes place on the 'shop floor' – and are practically implemented. They need to be embedded in the culture and benefit all. When the company loses, everyone loses.

In order to want to change, we need to recognise the consequences of staying as we are. We first need to understand how the culture we, as leaders, create can lead to a sense of disenchantment amongst our teams which, in turn, can result in an increased risk of fraud. We can then face up to the potential impact of internal fraud on profits, reputation, business stability, internal morale, jobs and customer confidence. This impact should not be underestimated. With fraud, the cost of the cure after the event will almost always outweigh the cost of prevention.

'Leaders have a role to play in education. Culture alone doesn't mean everyone should know what they're doing'

Arun Chauhan  
Tenet Compliance & Litigation

'It is not about simply implementing a **'zero-tolerance'** approach, it is about investing to prevent the risks from arising in the first instance. Education is a key part of that'

Joanne Tilley  
emh group

## Recognition of the need to change

Before we begin to promote or implement culture changes across our organisations, it is important to first understand the true extent and potential cost of the issue.

Before we can change, we must recognise the need to.

The influence of leadership on culture is clear – but just how badly can things go wrong?

## Case Studies:

### Wells Fargo Account Fraud Scandal

- 
- 
- 
- 
- 
- 
- 
- 

#### Increasing targets

In 2010, John Stumpf, former CEO of Wells Fargo launched his mantra 'eight is great'. This simple rhyme fuelled extremely high sales targets for Wells Fargo employees. Employees were required to sell at least eight accounts to every customer – compared with just three, several years earlier.

The target imposed was not based on a figure he felt his salespeople could realistically achieve, instead, he was driving for growth. This greed was encapsulated when he was quizzed about the 'eight' sales target as he joked; "I'm often asked why we set a cross-sell goal of eight. The answer is it rhymed with 'great'. Perhaps our new client cheer should be: 'Let's go again, for 10.'"

The culture at Wells Fargo quickly turned toxic. Employees were fearful for their jobs, resentful of their leadership and willing to do whatever it took to achieve the exceedingly high objectives set for them.

Employees were reported to state how they had managers shouting in their face and how "the sales pressure from management was

unbearable". One employee even said how "we were constantly told we would end up working for McDonald's" and "If we did not make the sales quotas... we had to stay for what felt like after-school detention, or to report to a call session on Saturdays".

#### Ethical violations

From 2011, Wells Fargo had numerous reports of ethical violations. Over the course of four years, at least 5,000 employees were found to have opened more than a million false bank accounts and credit cards on behalf of unknowing customers. This resulted in over 1,000 employees losing their jobs per year between 2011 and 2013. Employees were also reported to have transferred some customer funds into these new accounts, triggering overdraft fees and damaging credit ratings.

#### Situational factors

The situational factors contributing to the internal fraud were not addressed. Leaders simply attributed the issues to 'bad employees', anticipating the problem would be resolved once these employees were dismissed. Reports of wrongdoing by employees were dismissed or ignored by senior management. As evidenced by the longevity of this scandal, this was not the case.

It was only once the full extent of the damage was revealed that Wells Fargo began to work to rebuild its culture and ethics. It revised its sales goals and how supervisors are evaluated to ensure employees did not feel pressured to reach high sales targets. It also implemented further checks and balances to ensure another fraud of this kind could not happen again – for example, confirmation emails are now distributed to customers when a new account is activated.



## Case Studies:

### Volkswagen Emissions Scandal

- 
- 
- 
- 
- 
- 
- 
- 

#### A culture of ambition and fear

Former CEO of Volkswagen Group, Martin Winterkorn was a highly demanding leader who drove for success at all costs. Former executives suggested Winterkorn's leadership style was both authoritarian and aimed at fostering a fearful culture.

Winterkorn wanted to be the best. He pursued extremely high sales targets to push Volkswagen Group to become the world's largest carmaker. In the first half of 2015, the company sold 5.04 million cars – leading to Volkswagen briefly holding the title.

#### Cheating to pass

The infamous Volkswagen emissions scandal began in 2015, when the US Environmental Protection Agency (EPA) issued Volkswagen Group with a notice of violation of the Clean Air Act.

In order to maintain trajectory towards high sales targets, Volkswagen needed to ensure the vehicles' nitrogen oxide outputs were in line with US standards – or at least demonstrate how they 'could be'. Motivated by their CEO's drive for growth, employees intentionally programmed turbocharged diesel injection (TDI) engines to activate emissions controls only during laboratory testing to ensure they met with the targets and ambitions their leaders set for them. This meant that the cars passed the nitrogen oxide emissions testing, despite emitting up to 40 times more nitrogen oxide in real-world driving. This is evidence of how systems, controls and processes, alone, can be bent, if not broken. More is needed to embed good ethical behaviour.

#### The power of culture

The decision to manipulate test results in order to make the company's cars appear safer for the environment was fuelled by the culture employees were immersed in at Volkswagen.

By driving for success at all costs, overlooking checks and balances and discouraging open dialogue, leaders at Volkswagen appear to have passed on pressures which promoted the cheating and unethical behaviour which ultimately led to the full-blown 2015 emissions scandal. This was the scenario which developed a 'pack of wolves'.

However, using culture to prevent fraud is about more than setting an expectation for employees to abide by the law. Just because something is technically possible, it does not necessarily make it right. Instead, leaders should work to embed ethical practice into the workplace culture they create, encouraging their teams to engage with doing things this way.

## The role of leaders is to explain the difference between the law and ethics and what they are aiming for

The law and ethics are different. The law is strict – it is clear, in the eyes of the law, what is right and what is wrong. Ethics, however, are much more personal – it depends on an individual's perception of what is right and what is wrong.

Often, ethical standards exceed legal standards. It falls upon senior members of organisations to educate their employees on the importance of ethics and essentially, explain and encourage people to do the 'right' thing. We must remember how easy it is for people to get 'lost' in their organisations, especially larger businesses.

The law alone is not sufficient in regulating honest and acceptable

behaviours in business. The law does not create a positive, ethical culture on its own. It creates the threshold of what should, or should not be, done. We should be asking our leaders to do more. To go beyond the requirements of the law to achieve a higher ethical standard and help our employees to understand why there is a difference between the two. That is the way forward to improving culture and as a result, decreasing an organisation's fraud risk.

It is like a speed restriction, in reverse. The law represents a target, not a limit. There is much more to strive for than what the law states.

'The law represents the starting point, not the finishing line, for what is ethical and right'

Daniel Belcher  
The Schools, Students  
and Teachers Network

'The law applies a baseline of what constitutes acceptable behaviour and so, to drive up standards, we need ethics to be set above these. Aligning the two would not give the right message'

Jon Darling  
University of Birmingham



## Persuading Change

If a leader or organisation has never experienced fraud, it can be difficult to persuade them to invest in its prevention. However, changing leadership's perceptions around the importance of culture is more likely to be an easier conversation and that is likely to inadvertently aid fraud prevention. Leaders can change the culture if they take a long-term approach.

When discussing fraud, a leader simply understanding the issue is not enough. With tight budgetary concerns, leaders need to feel

assured that every investment is improving the business' long-term profitability. Often, another centred initiative is not perceived by leaders as the right route unless it is business critical at that point in time.

Leaders have to be invested in long-term prosperity, growth and value of their organisation, rather than short-term gains and incentives. Leadership needs to go beyond hitting financial targets, into areas such as attracting the right talent that will help disrupt

the market and create growth with long term objectives in mind. If change through culture is to be adopted to combat fraud, leaders need to understand the business case.

## The Business Case For Change

Improving your business' culture and setting a standard of ethical behaviour will:

Improve trust across the business – encouraging employees to place confidence in leadership

Encourage whistleblowing – as employees trust in their leaders, they're more likely to report to them when something doesn't seem right

Increase engagement and motivation – if team members feel listened to, they will buy into the organisation and care for its success

Boost discretionary efforts and productivity – motivated and engaged employees will work harder if their efforts feel valued

Improve employee loyalty – when employees buy into their organisation's success, they will be looking to support it for the longer-term

Improve mental health and wellbeing – for both leaders and employees. A calmer, more supportive and trusting workplace culture can remove pressures which contribute to stress, anxiety or other mental health conditions

Reduce risk of loss – getting the right culture in place will ultimately reduce a business' risk of loss should a fraud event occur

Improve the bottom line – a positive culture, led from the top, can unlock the potential of financial growth and improve reputation, which is increasingly important as people seek out ethical business partners and want to engage with ethical products and services

Reduce the risk of damage to reputation

Ultimately, change is not just for today's leaders. It is about setting the right culture for the next generation of leaders – showing them the right, ethical way. It invests in an organisation's long-term, sustainable success.

However, it is not about changing everything at once, it is about thinking about the smaller, practical changes leaders can make in their organisations to improve culture to promote greater engagement and, as a result, decrease fraud risk.

## How do we change? – Practical tips

### Drive Higher Standards

- Be disruptive. If something could be better, change it. If the standards are flawed, improve them
- Do not settle for the baseline of compliance – go beyond this. Encourage maximum ethical behaviours
- See and be seen – go to and check the places where people are known to take risks

### Encourage Conversations

- Mentor your team – lead by example, be visible and approachable to your team at all times
- Have open discussions about the risks of dishonesty and fraud – at every level
- Back to the floor – connect the leadership with the frontline teams. Culture is built from the ground up

### Prioritise Employee Engagement

- Ensure every member of your organisation is on board with its goals and purpose
- Rethink reward incentives – speak with your team, find out what would truly motivate them
- Engage everyone in any form of organisational change

### Invest In Training & Education

- Highlight the cost of a poor culture vs implementing best practice
- Use trial or 'dummy' frauds to demonstrate the possible consequences
- Recognise the human factor – educate the whole team on acceptable and ethical behaviours, in doing so they will become your eyes and ears

## Conclusion

Whether they realise it or not, leaders undoubtedly have a huge influence on workplace culture and, in turn, actions of employees. If target-orientated pressures arise and put teams under excessive stress, workplace culture can unintentionally turn toxic. This toxicity can lead to employee disenchantment, leaving team members less motivated and less productive.

Over time, as pressures continue to increase, and engagement

continues to slip away, a need for self-preservation can kick in, as employees fear for their roles. This can put an organisation at increased risk of internal fraud.

It is a leader's responsibility to engage closely with their teams, to build trust and to promote information sharing. A good leader should mentor employees to succeed, motivate them with the right reward incentives and engage them in any form of organisational change.

By monitoring their influence closely, leaders can build a culture which is aligned with the values of their team. Leaders can also set the tone for many years ahead and, in doing so, reduce the very real risk that history presents time and time again, namely the threat of internal fraud.

In the words of Simon Sinek, let's ensure leaders help employees choose to do the right thing, rather than the right thing for themselves.



## Afterword

*By Arun Chauhan, founder and director, Tenet Compliance & Litigation.*

When the final draft of the contents for this white paper were nearing completion, we were suddenly thrown into lockdown due to COVID-19 and in an instant, the way we work, our ability to work, our leaders and their leadership were instantly challenged.

After the immediate period of adapting to the 'new normal', attention will start to turn to what we discover has been taking place in plain sight. We will start to find out how many organisations have been suffering from internal fraud and manipulation, previously hidden by

improved performance. For me, this is inevitable.

In my mind it will now be critical, if there is now a wave of discovery of internal fraud, to ask why have the changes implemented by global regulators post-2008 not worked? No doubt, increased regulation and supervision will have prevented fraud, but why has that not been sufficient?

Time and time again, during an investigation for an organisation, I have had to highlight that policies and procedures do not work alone.

Engagement by employees is driven by people buying into why policies are necessary and how they help an organisation and their people prevent fraud.

I hope this white paper makes it clear that more regulation is not the only answer. Every leader should see fraud prevention not as a 'tick box' exercise but as their responsibility to watch everything they say and everything they do because it will define the culture - and thereby the integrity - of their organisation in the years to come.



## About Tenet

We are a specialist compliance and litigation law firm. We focus on fraud and financial crime compliance for our clients across the UK and overseas. This expertise covers the spectrum of preventative action (in the forms of training and policy advice), case investigation and guidance on recovery of loss from financial fraud.

As a progressive organisation our team of international/national law firm lawyers utilise the latest cloud-based technology and working

practices to deliver cost-effective, innovative solutions for our clients and a genuine work-life balance for our people.

We have been recognised in short listings for multiple national awards for innovation in legal services.

To find out how we can help your business be more confident with financial crime compliance or reacting to the suspicion of fraud, please get in touch and we will be delighted to tell you more.

0121 796 4020

[hello@tenetlaw.co.uk](mailto:hello@tenetlaw.co.uk)

[www.tenetlaw.co.uk](http://www.tenetlaw.co.uk)

# Additional reading material

## Reports

- Report to the Nations
- Financial Cost of Fraud 2019
- 2018 Reputation Dividend Report
- 2020 Edelman Trust Barometer
- Attitudes of the British Public to Business Ethics 2019

## Other Links

- The influence of leadership
- Growing importance of an ethical culture

## Case Studies

- Wells Fargo:
  - Why did employees participate in fraud?
  - Wells Fargo's pressure-cooker sales culture comes at a cost
  - The Wells Fargo Saga
- Volkswagen
  - The Biggest Lesson from Volkswagen: Culture Dictates Behaviour



Tenet Compliance & Litigation  
10<sup>th</sup> Floor, Lyndon House  
62 Hagley Road, Birmingham B16 8PE

t. 0121 796 4020  
e. [hello@tenetlaw.co.uk](mailto:hello@tenetlaw.co.uk)  
w. [tenetlaw.co.uk](http://tenetlaw.co.uk)

