

# Competition limits self-interests that pose potential problems for corporations

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The combination of lucrative incentives and pressure to meet sales goals led to a perfect storm that resulted in Wells Fargo employees creating millions of fraudulent bank accounts, said David King, an associate professor of management in Iowa State University's College of Business. It's an example of how self-interests can trump the best interests of an organization or its customers.

Wells Fargo is not alone. Volkswagen rigged vehicle emissions to comply with government standards, and the maker of the EpiPen came under fire for an exorbitant price increase. King says in all three examples, lack of oversight made it easy for company executives and employees to act in their own self-interest. In a paper, published by the journal *Public Integrity*, King explains how competing interests within an organization can limit egregious unethical behavior.

"We've created a system of 'What's in it for me?' and 'What can I get away with?' versus 'What's the right thing to do?'. There needs to be a restructuring of corporate governance, so more people, representing various interests, are at the table making decisions," King said. "That way no one person has complete power. They have to make compromises."

In most corporations, investors and managers are the primary stakeholders. King says a third party is needed. He and co-author Leslie Sekerka, a management professor at Menlo College in California, examined how defense procurement - often referred to as an "iron

triangle" - is designed to mitigate self-interests. King says the Department of Defense, Congress and major defense firms that make up the triangle all have a stake in determining defense spending. The structure is similar to the three branches of government to allow for checks and balances.

King, a retired Air Force officer who served as a program manager for Air Force systems, explained that each stakeholder brings a different perspective to the table. For example, Congress is interested in jobs and support for military bases in their district, but must be responsible stewards of taxpayer dollars. The military wants the latest equipment, but at a fair price. The overlap between the two, along with defense firms vying for the contracts, creates a system of compromise.

At times, it can be a tedious and inefficient process, King said. However, the system generally keeps self-interests from prevailing, which could benefit corporations. As organizations grow, it is more difficult to oversee and manage every aspect of the operation, King said. Guaranteeing that all interests - from investors to managers to labor unions - are represented adds a layer of oversight and limits one group from wielding too much power.

## **Threat to the system**

Plans to reorganize or eliminate the Undersecretary of Defense for Acquisition, Technology and Logistics, or USD/AT&L, could erase this system of checks and balances, King said. AT&L manages the budget, sets policy, reviews program costs and measures performance. Eliminating this office would shift responsibility to the individual branches, which could expedite some spending decisions, but King warns it could also lead to problems with oversight.

"It has the potential to put the fox in charge of the hen house, because

each branch could essentially change the conditions to favor their own self-interests," King said. "AT&L made life difficult at times, but as a taxpayer I see the benefit. AT&L asked the tough questions and required compromise."

In the corporate world, having another voice at the table may also be difficult at times, but King says it's a necessary oversight. King used the example of Wells Fargo bank audits to illustrate how the current system is less than ideal. Bank managers received a 24-hour notice of an audit, and this did not provide the level of scrutiny needed to prevent problems, King said. In addition to improved oversight, King recommends corporate ethics policies, such as having an ombudsman or a whistle blower program.

**More information:** David R. King et al, Managing Competing Interests: A Review of Ethics in Military Procurement, *Public Integrity* (2017). [DOI: 10.1080/10999922.2016.1276789](https://doi.org/10.1080/10999922.2016.1276789)

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