

## Can goals breed fraud?

### Highlights

- VW engineers could not find a legal solution to an overly aggressive goal management gave them.
- Once characteristic of fraud is the ability for fraudsters to justify or rationalize their actions.
- An ethical tone at the top includes setting realistic deadlines and targets.

Most of us are aware of the scandal surrounding Volkswagen's emission software. The software was rigged to pass emissions tests when, in reality, diesel powered VWs were spewing up to 40 times the legal limit of nitrogen oxide (NOx) during normal use. Last month, VW agreed to a settlement of more than \$15.3 billion. How did this fraud happen at a company praised for its care for the environment and its ethical culture?

VW stopped selling diesel models in the United States after the Environmental Protection Agency (EPA) imposed stricter pollution standards in 2007. Volkswagen Chairman Hans Dieter Poetsch said that engineers were unable to find a technical solution to the new NOx emissions standards within their "time frame and budget." Ultimately, the engineers resorted to emissions cheating software to solve the problem. This software was smart enough to know when emissions were being tested, and able to temporarily adjust the engine to pass the tests.

One characteristic commonly present when fraud occurs is rationalization. It is the ability for fraudsters to justify their actions. I would suspect the VW engineers implicated in the fraud were not evil, greedy criminals. Instead, they were most likely conscientious professionals given a seemingly unsolvable problem. They had received a strong message from the top that failure was not an option. If so, and no solution could be found, what other option did the engineers have? Would they be willing to risk the company's future, and perhaps their own careers, by failing to

achieve the mandated goal? These motivations could make an honest person turn to fraud.

We can learn much from the Volkswagen story. In government, revenues and profits are not the objective. However, we still often have lofty goals to meet. Distributing grant funds quickly, launching new computer systems on time, or processing customer applications within a strict deadline are goals we might be given. However, when goals become so aggressive that they are unreachable, the need to "cut corners" or cheat on controls to meet expectations can lure hard-working, honest state employees down a dangerous path.

Management should consider the impact of performance expectations for employees, especially in high-pressure situations. While agency leaders and managers should always hold employees accountable, goals and expectations must be realistic and achievable.

It is important for management to set an appropriate tone at the top, promoting an ethical culture. Management must demonstrate the importance of integrity and ethical values through their directives, attitudes, and behavior. This includes setting realistic targets and deadlines, so employees are not put into the position of ignoring key control activities, cheating or, even worse, committing fraud to achieve their goals.

*Suggested action steps:* Does your agency impose realistic goals? Is there an open door policy for employees to bring forward concerns about targets and deadlines without fear of retaliation? Workers should be held accountable for their performance, but not put into unattainable situations.

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