Integrating Business Process Management, Business Ethics and Normalization of Deviance in Managerial Decision-Making

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Abstract: This study analyzes a case where all members of a subsidiary's top management team from one of the leading confectionery manufacturers in the world were involved in bill's fabrication, a millionaire fraud that ended with the subsidiary restructuration. The study presents three perspectives to analyze the events: Business process management, business ethics and normalization of deviance and then, it explores its interrelations. The conclusion is that companies must rely on control and openness to gather early information to detect misbehavior as even people with strong ethics and moral values could be involved in bad corporate practices.

INTRODUCTION

This study analyzes a business case where all of a subsidiary's management team from a leading company was involved in bad practices that harmed the relationship with its distributors and intends an explanation of the causes from three perspectives: Business Process Management (BPM), business ethics and normalization of deviance. Below, the case is presented, followed by a literature review on the mentioned perspectives. Next, there is a discussion regarding possible explanations for this group misbehavior. The study ends with conclusions and recommendations for future research.

Simple summary: From year 2016-2019 one of a subsidiaries from a leading company was involved in a case of fraud where hundreds of bills were fabricated in order for them to declare more revenues than the real ones. All top management team was involved and finally, removed from the company. This study explores the causes of this behavior and concluded that to prevent misbehavior procedures must be strictly followed as even people with strong ethical values can misbehave when the group accept deviances from the norms. Any deviance should be reported to an independent unit. To succeed at it, companies require to keep open communication with customers and integrate the supply chain.

The case: By the end of year 2015, Great Flavor (GFH, name and places have been changed to preserve the image of the company) was one of the largest confectionery manufacturers in the world with GFH located in The USA, revenues of US$ 25 billion and a profit margin of 5%. Although, revenues made GFH one of the five largest companies in its industry worldwide, profit margin was far below the 8% average in the industry. To sustain its leading position, top management set aggressive goals for the period 2016-2020. To motivate the subsidiaries' managerial teams GFH offered attractive bonuses as to double the yearly income for the subsidiary CEO and 50% of the year salary for the other managers in case they achieve the goals.

The Green Flavor Ecuador (GFE) CEO concluded that for the Ecuadorian subsidiary to succeed, they needed

to make sales grow at an average of 8% every year. This seemed hardly complicated for a mature industry in a country whose GDP growth had steadily decreased from +7.9% in 2011 to +0.1% in 2015. GFE had its facility in Guayaquil, the largest city in the country and used to sell its products through its chain of 27 small, independent distributors, nationwide. GFE gave their distributors 90 days-invoice-date for payment. As the distributors only gave 30 days to their customers, they enjoyed negative cash flow that although benefitted them regarding capital needs also made them more dependent to GFE.

The first strategy that the GFE CEO pursued was to innovate and to launch new products. Following the innovation strategy, in 2016 GFE launched more products than in the past five years together but revenues only grew by 3% as all new products were for niche markets only. By the end of that year, the CEO figured out that the only way to achieve the goals was to put pressure on its distributors. Therefore, in the top management meeting they decided that no matter what, they would have to make their distributors purchase more products.

The GFE commercial area was in charge of a sales manager who had eleven sales supervisors reporting to him. In 2017, the sales manager designed a bonus program where sales supervisors earned commission only if they increased sales to his/her distributors by 10%, compared with sales in the same month the year before. The strategy worked well as sales supervisors increased visits to their customers, offered closer attention to them and delivered the products faster. Although, the main reason why sales grew that year was that the distributors increased their inventory level by roughly 100% to take advantage of the discounts offered when they purchased large quantities. The other factor that had an impact in the increase of the distributor's inventory level was a communication received from GFE indicating that their contracts would be reviewed if they did not reach the purchase goals for 2017.

The distributors' inventory level grew even more in 2018 as GFE continued pressuring them to purchase more products regardless whether they needed them. The GFE CEO gave the order to dispatch their distributors all extra quantities needed to accomplish their monthly goals and to communicate them they could return the extra quantities 90 days after, before having to pay for them. In that way, their financials metrics would not be affected. The problem for the distributors was that as they did not have more free space in their warehouses, accepting extra quantities represented additional costs in inventory handling. So, month after month, this strategy proved harder to apply. By mid-2018, the distributors started to reject the product quantities they had no ordered.

The next measure the CEO approved in the second half of 2018 was to tell the sales director that they would have to dispatch the extra quantities regardless of the distributor's acceptance. Accordingly, logistic supervisors instructed the truck drivers to return to the company any product not accepted by the distributor and to put the product again in the warehouse. The sales and logistics supervisors registered the deliveries as if all quantities were already sold to the distributors and put the returned products in an in-transit warehouse as if they belonged to the distributors.

As a way to pressure the distributors to accept even more products, GFE threatened them with putting an end to their contracts and name new distributors whether they do not accept to purchase even more quantities. For that reason, the main distributor started meeting with all other distributors to discuss the situation. The distributors decided to tell GFE that they would not accept any extra quantity of what they had ordered and if GFE cancels the contract of one of them, they will all put an end to their contracts at the same time. GFE did not expect an answer like that as in the past their distributors have never talk to each other.

As the distributors refused to accept the arriving trucks with products they had not ordered, the GFE Sales Director started making fake sales with the complicity of the Finance Director, loading the products into the trucks, sending them just two blocks away from GFE facilities, waiting for around three hours and then returning to the facilities. Because of the measures taken, GFE declared in 2018 an outstanding revenues growth of 11.3%. GFH was impressed and put GFE as an example for all subsidiaries. Besides, GFH promoted the CEO to a corporate position in The USA.

The malicious actions taken by the GFE management team continued scaling, so, it did not take much longer for the distributors to realize that GFE was fabricating sales. In 2019, the distributors did not tolerate the situation any longer because their margins dropped even further when GFE increased the cost of the products ex-factory but not allowed them to increase the end price to the market. The distributors were also obliged to pay the bills in 60 days and not in 90 days as before, all as penalties for not accepting to purchase more products.

The untenable situation made one of the distributors to contact GFH and make them acknowledge the situation. GFH sent an audit team to Ecuador who concluded that there were unaccepted practices inside GFE. GFH decided to remove eight top executives and brought replacements from their subsidiaries all over the world. In that way, the production, sales and distribution processes were not affected. During the following weeks and months all employee who was directly or indirectly involved in the situation was expelled from the company. Up to the end of 2019, GFE continues struggling to recover its credibility. Revenues had dropped and they are likely to recover only by 2021. The former CEO was expelled and sued and the situation was communicated to

all employees. More supervision has been implemented to prevent that a situation like that ever happens again.

LITERATURE REVIEW

Regarding BPM, the key processes performance should include the supply chain as a whole[1]. The use of a widely scope system could help to prevent bias in decision-making. BPM needs to include strategic considerations as well as operative ones and the boundaries of the companies should include their customers and suppliers[2] as the relationship with its stakeholders can be source of competitive advantage[3]. "To create value an operations strategy may achieve performance targets in terms of quality"[4].

BPM is related also to the management of boundaries. Traditional boundaries were related to physical ones, as the point of sales or the place where the company received its inputs. Today those boundaries do not help to define core processes as the company interacts with customers and suppliers in long-term relationships. Therefore, boundaries are defined, now as the management of relationships[5]. In network dynamics, customers influence in suppliers and vice versa; therefore, the better the company uses its suppliers and customer resources the more likely it is that it will gain competitive advantage[6]. The operations management of boundaries needs to link and bear strategies that create trustable relationships between customers and suppliers.

Working in teams with suppliers and customers would lead to create innovative solutions to problems that exceed the limits of one company. The necessary flow of information must move in a real time manner. Boundary management is not about controlling the partners but about empowering them. Instead of trying to create a common vision for all, the team could work in strategic issues that affect them all[7]. Regarding the use of customer's information, open innovations initiatives have been successful worldwide. One of the cases of success was that of Lego, a company that having launched a product, initially designed for kids, finally accepted pressure from adults that constitute, nowadays, their primary source of income in that product[4].

The ability of a company to detect weak signs of disturbance and using these signs to anticipate the future and control change is key to succeed[8]. Therefore, people participation is crucial to develop collaboration in a supply chain as well as the adaptation to changes in the environment[9]. With time, collaboration creates a culture of teamwork which in turn, breeds more collaboration. Regarding business ethics[7] stated that unethical behavior occurs not only to harm organizations but trying to benefit them too[7] concluded that when employees had affective organization commitment they could show unethical behaviors for the sake of pursuing the organizational improvement. This explains why good people misbehave: As not all managers have the same ethical philosophy, it is expected that at least many of them will behave as if the end justifies the means. To have high moral standards help to prevent misbehaviors. Organizational commitment can act in both ways, making people to take care of the company and making them doing what they have to do to achieve results[10] recognized that people tend to justify otherwise non-ethical decisions when they produce good for a significant person or group of persons.

Ethical decisions could be analyzed either as deontological, moral, ones or teleological, outcome based, ones[11]. Outcome oriented measures would affect ethical decisions under the teleological point of view. So, if a person is more teleological oriented, she would perform differently under the presence of goal-oriented incentives. According of the ethical theory proposed by Hunt and Vitell[11], a person will judge more ethically a decision that is supposed to bring benefits that a decision that would produce a negative outcome. The problem seem to be the short-term perspective of some people as it is known that many decisions produced good results in the short run while producing bad results at the end. "When employees are rewarded based on achieving profit-oriented goals, attaining favorable organizational outcomes may influence manager's judgment of the ethicality of goal-driven employee behavior"[12]. When that the same behavior is seen many times in the workplace employees would tend to think that what happens is business as usual[13, 14] concluded that sometimes misconduct has not the origin in how an employee frame the decision dilemma but in the context were the decision is made. It can be argued that highly moral people will respect good managerial decisions no matter the pressure they receive but this is not the usual case.

Ethics training is necessary as continue reinforcement can change moral judgement[15, 16] concluded that compliance with group norms function shape managerial ethical behavior[17] argued that the leadership style is directly related to business ethics and proposed the model of ethical leadership where transformational leaders are more closely connected to deontology ethics while a transactional leader is related to teleological ethics. In this sense, transformational leaders are ethical by nature and take decisions based on moral values in order to do the right thing. This type of leadership acts motivated by a genuine consideration for others to reach objectives "that are in the interest of the entire organization, its members and the outside community"[17]. On the other hand, transactional leadership involve a quid pro quo exchange and is related to the utilitarian ethical theory which proposes: "Decisions are moral if they lead to the greatest degree of benefit for all concerned"[17]. If decisions produce desirable outcomes, then the damage they cause

tend to be treated as collateral. The use of extrinsic motivation factors can condition manager's decisions[13] stated also that people mirror in leaders, so if a leader misconduct is rewarded, then others will follow the same conduct.

Finally, regarding normalization of deviance, it was the study by Vaughn[18] the first to use this term to describe a type of conduct that gradually accepts thing that if have suddenly appeared would have likely been rejected. She analyzed the attitudes of NASA executives during the mission that ended in the Columbia shuttle disaster. Normalization of deviance occurs because lack of vigilance or outdated protocols that do not prevent misconduct to occur[19]. Collaborators do not speak-up and accept situations they do not agree with. What normalization of deviance means at the end is that people accept higher risk levels than the established by the initial rules or procedures. "When enough deviant behavior has been ignored, it becomes accepted or normalized"[19, 20], after analyzing the causes of normalization of deviance in operations processes described five reasons why people deviate from what it is expected: relying on experience and training overconfidence; inadequate inspection; Physical layout, bad infrastructure design; inadequate management of organizational change as reduction of staff and Doing more with less, pursue of savings. Mize also indicated that normalization of deviance could occur in every company, even in the best performing ones. What usually happens is that results improve at the beginning and diminish at the end.

DISCUSSION

GFH, GFE and its distributors are all parts of one larger system and there is no sense in passing products from GFE warehouse to its distributor's. All benefit that GFE obtained was because it instilled damage to its customers. GFH could integrate the distributors in its report system, making them a living part of the supply chain. In that way, GFH will also diminish the possibility for GFE to cheat. The integration of a company with its supply chain is more than ever, required and desired. Distributors could act as a source of information about end customers. In this digital era is not difficult to imagine a world of integration between the supply chain members. However, besides processes there is people's conduct.

Normalization of deviance arrived because of there were no power balance between GFE and its distributors. At the beginning, distributors did not coordinate between them and GFE offered discounts and other benefits that mitigate the harm produced by the increase in the inventory level. It was only when the distributors talk together where the power balance was restored. As it is usually the case, deviation from norms started with small deviations from what it is usually accepted. In the case, the pressure for revenues resulted in asking the distributors to buy more products, regardless that this new purchases would not go to end customers but to distributor's warehouses. This decision allowed GFE to achieve its goals and that made management team to think that they were doing the right things to do. The fact that GFH rewarded the output and not the outcome neither the processes followed, gave the message that GFE could continue following the same path. So, continue pressuring its distributors to accept more products was not seen wrong any longer and GFE executives continued creating new ways of transferring its inventory to its distributors. Delighting end customers was no longer the final goal but to send products to its distributors.

There is an ethical consideration regarding if short-term benefits justified creating problems for tomorrow. In other words if it is the manager's responsibility to decide what is better for the company in the end regardless if that means that the company will not achieve its goals in the short-run. One can argue that the problem was created in GFH as they make the subsidiaries to work under pressure.

It is likely that manager's motivation to pressure distributors to purchase more was not the same. While many of the managers were trying to increase their own income, others could have engaged in the same behavior just to make the company achieve its goals. The fact that GFE executives knew that the big goal of GFH was to increase revenues could have led them to thing that they were actually contributing with the organization when putting pressure to its distributors to purchase more quantities than needed.

When executives gave the order to put product out of its warehouse, registering it as a sale even if there was no purchase at all, the situation changed from being non-ethical to non-legal. Many people accepted this situation without anyone capable of speaking up and ending it. When this behavior was considered the new normal, GFE executives continued creating new ways of increasing sales, at least in documents, without any consideration of the damage they were causing to the company, its distributors and its own employees. Normalization of deviance is not a strange phenomenon. Besides, once a conduct produced the expected result it is reinforced and within a matter of time, considered a normal behavior in a group.

Executives were well-trained, high performance professionals who knew what they were doing. Somehow, the company failed at trying to instill organizational commitment to its executives. The advantage of making employees to identify with the organization is that everyone will feel the organization success or failure as

their own. Curiously, this identification could make executives to put more effort to get results and finally to misbehave.

CONCLUSION

This study contributes to the literature as the problem of corporate management misbehavior has not been treated before from the perspectives of BPM, business ethics and normalization of deviance at the same time. Unethical behavior is a product of not only the leader's moral principles but also of a collective memory where it can be produced gradually.

As it is difficult for people to make non-biased decisions, if the outcome is desirable, then this kind of decisions is reinforced and are likely to be used again. This case shed light on the relationship between pressure for results, rewards and punishment in a goal-oriented environment as a cause of unethical conduct in managers.

The main problem derived from normalization of deviance is that that type of conduct is no longer rejected or even noticed as it becomes the new normal way of doing things. Even people who at the beginning, felt uncomfortable with that kind of situation become used to it. The root of the problem is that past actions resulted in desired output, so, the misconduct is reinforced. Normalization of deviance can and must be reduced in organizations. Safety procedures in companies at least in the ones that are successful reducing accidents, do not allow any deviance from the established protocols and these ones usually do not allow any risk that can led to an accident, even if it is a minor one. One can argue that behaving like that will diminish profitability and production but experience show that it is exactly the opposite.

It seems that balance of power in the supply chain could do at least the same good as having managers with strong ethics principles. Managers tend to work with people they are used to get around with instead of with people they respect. There is a need to promote power balance in decision making, especially, when those decisions can impact the whole organization. There should be clear limits to what each manager is able to do. The relationship with customers can harm or create competitive advantage for a company. There are plenty of opportunities for common growth when sharing information and resources as distributors are close to the market and have processes at which they excel. Behavior-based programs would help people to speak-up when they detect a situation that could make more damage than benefits. It cannot be said that any goal-oriented reward system would lead to unethical conduct but the odds are that it is.

RECOMMENDATIONS

Future research should analyze ways to effectively integrate operations between distributors and their supplier. How to prevent misbehavior is a question that remain to be answered. There is need to research, also, on the role of the metrics used, especially when the focus is in the output and not in the process. Better metrics should lead to better results. Finally, more research is necessary on how to prevent normalization of deviance in managerial decision-making processes.

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