

# Liars need others to lie too

Institutional lying is everywhere and the downturn may mean more spin, writes **Fiona Smith**.

**W**hat do you call it when a real estate agent overquotes the value of your house just to get your business? Or when a financial institution sells a product, but disguises the risks? Or a manufacturer makes health claims that can't be backed up by science?

These are all examples of institutional lying – the sort of dishonesty that occurs every day as people bend, twist and ignore the truth to make a profit.

Sometimes the perpetrators end up with an investigation by the regulators and a fine. Sometimes it is business-busting bad publicity and, at the extreme end, it can result in multimillion-dollar losses for the organisation involved.

Suzanne Chan-Serafin, from the School of Organisation and Management at the University of NSW, will present her research on lying in Chicago this month.

At the centre of her research paper is the case of Prudential Securities in the US, which in 1993 settled charges of securities fraud costing it \$US1.5 billion in fines and restitution.

In this case, brokers sold \$8 billion worth of highly speculative limited partnerships over a 10-year period in the 1980s without regard to whether they were appropriate to 400,000 investors.

The investments turned out to be worth far less than the clients paid, but the sales were so lucrative for the brokers that they shrugged off ethical concerns.

According to a book on the affair, *Serpent on the Rock* by Kurt Eichenwald, brokers and staff were intimidated into doing things they knew were wrong and whistleblowers were fired after they reported their boss was taking part in suspected shady dealings.

“For executives at the senior reaches of the firm, the flow of cash from the department’s business became personal piggy banks, financing profligate corporate spending, regal lifestyles and even sexual conquest. Limousines, wild

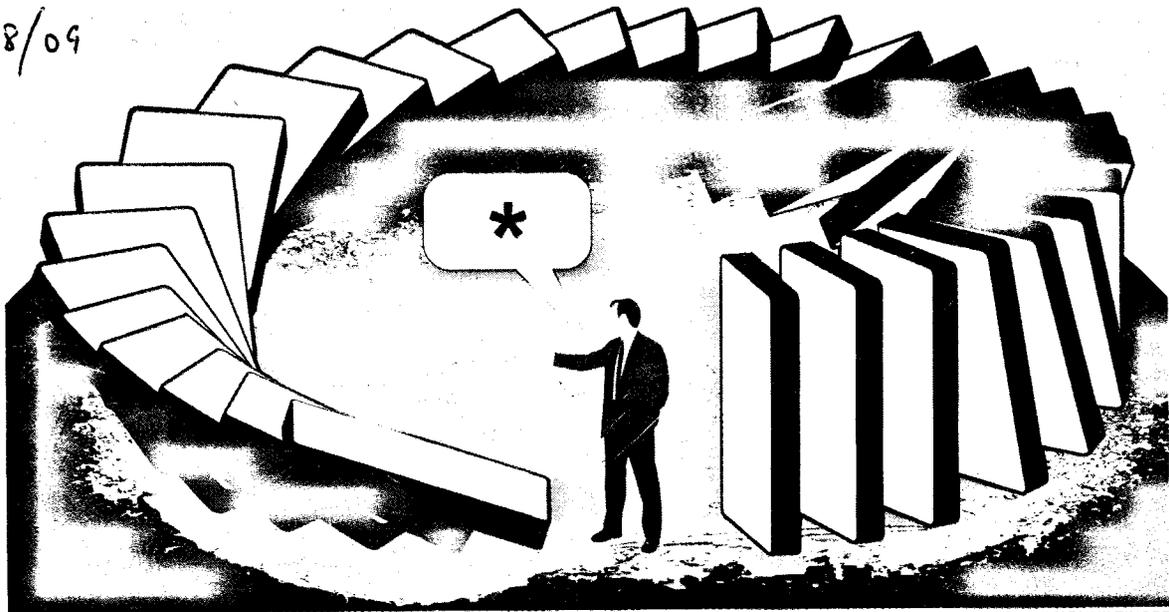


Illustration: KARL HILZINGER

parties, and expensive overseas junkets became the order of the day, paid for out of clients’ investment dollars,” Eichenwald writes.

“Overseeing this money machine was a small group of executives who cut corners or ignored problems as they promoted the firm and built personal empires. Alone, none of these men could have created the disaster that emerged from Prudential-Bache; together, their weaknesses and desires combined to push the firm inexorably toward scandal.”

Prudential-Bache changed its name to Prudential Securities in 1991.

Chan-Serafin’s research uses the domino theory of lying to explain how the fraud was perpetuated at Prudential. This is where one or a small group of powerful people tell lies repeatedly and, because of their influence or bullying, those lies are spread like a contagion throughout the organisation.

“Usually, in most companies that do bad things, it starts with a few individuals who start to lie,” she says.

If there is a business culture where there is great pressure to succeed – at all costs – then the conditions are ripe for institutional lying.

“Very often, when these kinds of behaviours get down to the lower echelons, they don’t know they are lying. They think they are giving honest answers to customers,” says Chan-Serafin.

No matter how much attention is

given to ethics policies and values statements, people will continue to lie, but there are processes that can stop those lies becoming widespread, she says.

“Dishonesty is pervasive in all organisations, but it depends on the degree.”

A recent survey by Harris Interactive for recruitment firm Adecco finds 28 per cent of 1200 Americans say they would act immorally – including lying or backstabbing – to keep their jobs.

A further 13 per cent say they would lie or exaggerate to keep their jobs, even though their company ethics policy forbids it.

Nevertheless, ethics policies are

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important and organisations can also set up hotlines for anyone unsure about the “right” thing to do.

According to a recent report from compliance company the Ethical Leadership Group, it does not matter whether calls to that hotline are anonymous or not.

From 225,000 reports last year to the company’s hotline services, 28 per cent of cases that were substantiated were from anonymous callers, and another 28 per cent of substantiated cases were from people who were prepared to give their names.

Chan-Serafin says it is also important for leaders to encourage people to speak out. This means rewarding people who say unpopular things, rather than those who pander to the CEO’s ego.

“The leader always needs to talk about the mission to the employees and put ethics on top. They need to set up psychological safety for the whistleblowers when everyone around them is being dishonest.”

They also need to make sure the whistleblowers are protected.

Chan-Serafin says that, with the intensified pressure on businesses to make money through this downturn, people may think that the only way to survive is to cut corners ethically.

“They may have profits for the short term, but if they get caught, then the whole company could be dissolved.”