The term “self-dealing” is commonly understood to mean an individual’s conduct that consists of taking advantage of their position to act in their own interests rather than in the interests of a corporation or its shareholders. If the individual is an officer of the company, it’s often postured as a breach of the individual’s fiduciary duty.

I think it’s safe to say that most of us have experienced somebody’s self-dealing at least once in our work lives. Maybe it’s been the President or CEO who made sure the son-in-law (or nephew) was hired when there were more qualified candidates available for the position. Maybe it’s the Vice President who hired his old friend as a consultant even when there was no meaningful work to be done. Or perhaps it was the salesperson who closed the deal just in time to make their quota (and receive a bonus) by offering such a steep discount that the company was sure to lose money.

In each of the above examples, the individual put personal desires ahead of the company’s best interest, and used the authority of their positions to make it happen. They didn’t obtain any direct financial benefit from doing so (which likely would have been viewed as a prohibited conflict of interest), but they obtained an intangible benefit. In the hypothetical situation of the salesperson, there was a financial benefit (the bonus), but if that person had the authority to offer a discount (and/or it was approved by somebody who did), then they did nothing actionably wrong and got to pocket their bonus despite the harm they caused to the company’s bottom-line.

Thus, self-dealing is putting an individual’s interests ahead of the company’s interests, but doing so within approved channels.

We frequently see this situation when a company is organized into autonomous or semi-autonomous “silos.” Those silos have leaders, and those leaders tend to think first about the interests of their silos rather than the interests of the company as a whole. For example, one silo may compete with another for new business. In another example, one silo may deny providing resources or other assistance to another silo, even though (when viewed from the company’s perspective) that would be a logical action to take. Think of one silo that has a lot of top-notch software engineers: the other silo is struggling with a software project and could really use some temporary help. It would make sense to provide some high-end software engineers because a successful project benefits the company’s bottom-line; however, doing so might conceivably hurt the other silo’s projects.

So the request for assistance is denied and the company's bottom-line is hurt. Importantly, though, nobody did anything wrong. There was no requirement to provide assistance and there were no consequences for refusing to provide assistance. It's just the way things worked out.

Are we describing your company culture? Is your company largely comprised of independent silos that don't cooperate very much?

How does a company culture get to be that way?

Simple: *You get the behavior you incentivize.*

If you tie salespeople's compensation to sales quota—i.e., if you make the quota all about deal volume rather than *profitable* deal volume, then you get volume but not profit. If you create silos and then tie the compensation of those who run the silos to their individual performance, you get behavior that maximizes the individual silo's performance at the expense of the other silos. We call it self-dealing but it's just human nature.

Moreover, when you give people responsibility without accountability for their actions, then you pave the way towards self-dealing. If there are no consequences for hiring friends or relatives then it becomes part of the day-to-day culture. It is what it is, so to speak.

If you want to stop self-dealing you have to incentivize proper behavior and create consequences for improper behavior.

I worked at a multi-national engineering company for eight years. It was huge, with offices across America as well as Europe, Australia, and Asia. Despite its size and complexity, the company consistently ranked amongst the top tier of all companies in its industry. Often, it was ranked Number One. Forbes once named it "the most admired company" in its industry niche. How did it accomplish those feats?

First, the company tied all variable and incentive compensation to the company’s bottom-line, and not to individual or silo performance. There was an incentive compensation formula, and every executive knew it. The better the company performed, the more bonus payouts they received. They were actively incentivized to help each other out and keep the company’s bottom-line healthy.

The link between compensation and behavior flowed to the sales force. Salespeople were supposed to be businesspeople, and deals had to make sense financially or they wouldn’t be approved.

That same company took other measures to penalize poor decision-making and to reward smart decision-making. Could a person hire a relative or friend? Sure. It happened. But if that relative or friend didn’t perform up to expectations, then they didn’t last long.

Part of that company’s culture was the linking of pay and performance. Now, a lot of companies pay lip-service to that idea, but this company lived it. The theory was: if you are good then people will want to work with you. Project managers will fight to have you assigned to their projects. You’ll never want for work. But if you are a low performer, then you’ll have trouble finding work. People won’t want you around. Thus, the company spent a good deal of time looking at how people charged their time and seeking to identify those who had trouble finding projects to charge to. Too long without meaningful charges? Sorry, time to move on.

And then somebody was going to ask the hiring manager what they had been thinking during the original hiring decision. That was going to be a difficult decision to rationalize.

If you want to stop self-dealing you have to create a culture where not only is it frowned-upon, but it is actively disincentivized.

If you create positive incentives for supporting the company’s bottom-line and if you create disincentives for self-dealing, you have a good chance of creating a workplace culture where self-dealing will be minimized. I don’t think you’ll ever stamp it out entirely—because people are humans—but you should be able to minimize it.

If you work to minimize self-dealing, you may find you have created a culture of teamwork, where collaboration is the status quo. That kind of culture should lead to reduced attrition, reduced sick time, and a healthier bottom-line.