

Chapter 2

Why Traditional Approaches to Ethics Won't Save You

Imagine that you are standing on a footbridge spanning some trolley tracks (see figure 3). You see that a runaway trolley is threatening to kill five people. Standing next to you, in between the oncoming trolley and the five people, is a railway worker wearing a large backpack. You quickly realize that the only way to save the people is to push this man off the bridge and onto the tracks below. The man will die, but his body will stop the trolley from reaching the others. (You quickly understand that you can't jump yourself because you aren't carrying enough weight to stop the trolley, and there's no time to put on the man's backpack.) Legal concerns aside, would it be ethical for you to save the five people by pushing this stranger to his death?

We have just described a very famous philosophy problem known as the "footbridge dilemma."¹ It is often used to contrast two different normative approaches to ethical decision making: a *consequentialist* approach and a *deontological* approach. A *consequentialist* approach is one that determines the morality of an action by its ensuing consequences. Utilitarianism, a common form of consequentialialism, is often described by the phrase "doing the greatest good for the greatest number of people." A very different form of ethical thinking, what Immanuel Kant referred to as *deontological* approach, judges the morality of an action based on the action's adherence to rules or duties.² Kant argued that judgments of whether an act is right or wrong should be determined by a consideration of rights and duties in society. From Kant's point of view, the act of pushing someone off of a bridge would violate his rights and is therefore immoral.

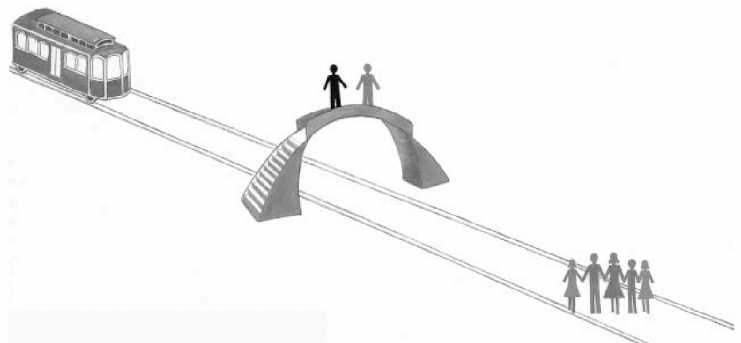


Figure 3. The footbridge dilemma

Indeed, when reading the footbridge dilemma, most people do not believe it is ethically acceptable to push the railway worker off the bridge in order to save five lives. Using a deontological approach, they ask themselves whether they have the right to push someone off of a bridge. If you ask them why they are opposed to the idea of pushing the man off the bridge, common answers include, "That would be murder!" "The ends don't justify the means!" or "People have rights!"³ By contrast, a utilitarian approach would involve adding up the costs and benefits of each choice and choosing the option that yields the best balance of costs and benefits for all involved—which, in this case, would be to save five lives at the expense of one.

Now let's look at a problem that was conceived before the footbridge dilemma, the "trolley dilemma": A runaway trolley is headed for five railway workmen who will be killed if it proceeds on its present course (see figure 4). The only way to save these people is to hit a switch that will turn the trolley onto a side track where it will run over and kill one workman instead of five. Ignoring legal concerns, would it be ethically acceptable for you to turn the trolley by hitting the switch in order to save five people at the expense of one person?⁴

When considering the trolley dilemma, most people (who have not previously been exposed to the footbridge dilemma) say that it is ethically permissible to hit the switch. If you ask them why, their explanations tend to focus on the belief that having five people die would be worse than having one person die.⁵ This is prototypical *utilitarian* thinking because of its focus on the consequences of actions.

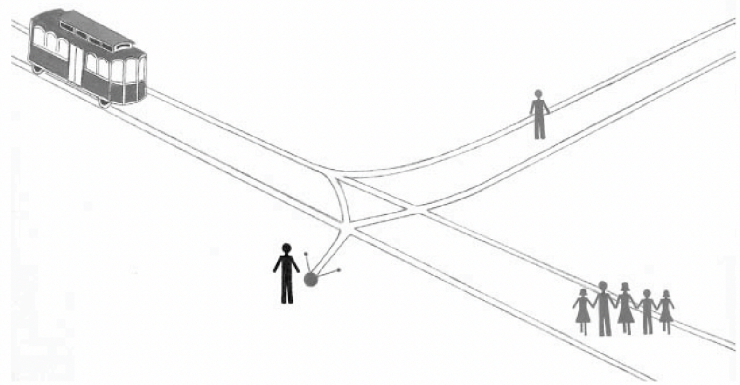


Figure 4. The trolley (switch) problem

When people are exposed to both of these problems, some are bothered by the arguable inconsistency of deciding to flip the switch to turn the trolley (in the trolley dilemma), contrasted with the decision not to push the man over the bridge (in the footbridge dilemma). Those who are bothered by the inconsistency tend to make the footbridge decision intuitively; later exposure to the trolley dilemma then leads them to greater reflection consistent with utilitarian reasoning. As these two stories illustrate, we sometimes use the implied philosophical principles discussed earlier to make judgments. However, we tend to apply these rules inconsistently, and we sometimes violate what we would do if we gave the question more thought.

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We have no vested stake in whether you are more of a utilitarian or a deontologist, or if you decide to become one or the other upon finishing this book.

Can Ethicists Improve Our Ethics?

After the collapse of Enron and other organizations during the same period, professional schools and corporations have been called on to give ethical matters more serious deliberation.

Contemporary philosophers have argued that philosophical thinking is central to a moral education, that it will make us better citizens, and that it will give us the courage needed to stand up for justice.

Yet in his research, Schwitzgebel finds that if morality is equated with "not stealing," ethicists do not score very well, at least by certain measures.

Schwitzgebel conducted related research on whether ethicists are more likely to engage in the arguably prosocial behaviors of voting and not eating meat.

Even professional philosophers appear to be divided regarding the ethical behavior of ethicists. A poll of philosophers at an American Philosophical Association meeting in April 2007 found that although a substantial minority (especially ethicists) expressed the view that ethicists do behave morally better, on average, than nonethicists of a similar social background, a majority of respondents said that ethicists do not behave better than nonethicists.

Surprised? You might not be if you thought about the focus and underlying assumptions of a philosophical approach to ethics. Normative ethicists from a philosophical tradition have focused on exploring how we should behave and have made great strides toward answering these types of questions.

The Limits of Traditional Approaches to Ethics

Another barrier that has kept scholars of ethics from fully dealing with ethical issues concerns the central role they give to decision makers' ethical intentions. Most approaches to ethics assume that people recognize an ethical dilemma for what it is and respond to it intentionally.

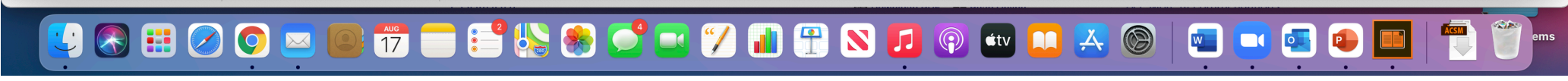
Moral Awareness -> Moral Judgment -> Moral Intention -> Moral Action

Moral awareness, judgment, intention, and action certainly are important factors in understanding many ethical decisions. Yet this model is incomplete and potentially misleading. The model presumes that (1) awareness is needed for a decision to have moral implications, (2) an individual's reasoning determines judgment, and (3) moral intention is required for her to understand her moral action.

When We Lack Moral Awareness

Imagine that you are a salesperson who works on full commission. All of your income depends on how much you sell. You have been given aggressive sales quotas, and you focus on how to meet these goals.

This scenario describes the situation faced by millions of employees working for organizations around the world. At face value, the situation appears completely acceptable. Now let's add more detail. The year is 2006, the salesperson is a mortgage lender, and his quotas require him to lend money to homeowners independent of their



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most overestimated the influence of self-interest on others; at the same time, they denied it would affect their own decision.²⁶ Most of us dramatically underestimate the degree to which our behavior is affected by incentives and other situational factors.

The decisions we make on behalf of ourselves, our organizations, and society at large can create great harm. To improve our ethical judgment, we need to understand and accept the limitations of the human mind. Yet the solutions that have been offered to reduce the undesirable outcomes of these decisions—including laws and ethics remediation and training—don't take these limitations into account. Without an awareness of blind spots, traditional approaches to ethics won't be particularly useful in improving behavior. If, like most people, you routinely fail to recognize the ethical components of decisions, succumb to common cognitive biases, and think you behave more unethically than you actually do, then being taught which ethical judgment you should make is unlikely to improve your ethicality. By contrast, the lessons of behavioral ethics should prove useful for those who wish to be more ethical human beings but whose judgments don't always live up to their ideals or expectations.



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The third task asked Ash to press one key when he saw a black face or a bad word, but to use a different key when he saw a white face or a good word. This task was harder, but did not strain Ash's mind much.

The fourth task was similar to the third, but with a small change in the pairings. This time, Ash was asked to press one key to judge if a face was black or a word was good, but to press a different key when a face was white or a word was bad. This new task sounded very similar to the prior one. This time, however, the task felt much harder, and Ash found himself making more misclassifications. Even more noticeably, in order to choose the right answer, he needed to work much more slowly than in the prior task.

The computer calculated that it had taken Ash longer to make the "black-good" and "white-bad" distinctions than to make the "black-bad" and "white-good" distinctions (as measured in milliseconds). Based on these results, the computer reported that Ash showed a moderately strong association between black and bad, and between white and good. In other words, his implicit associations revealed a preference for white over black even though he didn't have such a preference in his conscious mind.

Banaji, Greenwald, and their colleagues describe these preferences as ordinary prejudice. They use the word "ordinary" to highlight the fact that the ordinary thought processes humans use to categorize, perceive, and judge information can lead to systematic feelings and beliefs that can be labeled as prejudiced and stereotypical. Such thought processes can also be considered "ordinary" because they affect even very honest and smart people, including managers, executives, and other professionals. This research falls squarely in the realm of behavioral ethics.

Some scholars have questioned whether the Implicit Association Test can accurately predict actual behavior, yet the IAT has led to some amazing empirical results. Researchers have found that outcomes on the IAT predict hostility to minority groups and the degree to which people discriminate in selection of job candidates based on race. A race-based IAT predicted differences in how Caucasians and African Americans were treated by actual medical doctors. Researchers discovered the degree to which Swedes prefer to hold job interviews with other Swedes rather than Arabs. In fact, there is much evidence that all groups hold a variety of implicit biases.

Now consider the media firestorm that erupted in July 2009 after President Barack Obama commented on the arrest of Henry Louis Gates Jr., an African American Harvard University professor, by James Crowley, a white Cambridge police sergeant. As you may recall, upon returning home from an overseas trip, Gates found his front door jammed and forced his way inside with the help of his cab driver. A neighbor phoned the police to report a possible break-in. Arriving at the scene, Crowley asked Gates to step outside; Gates refused. Gates says that he showed Crowley his Harvard ID card and driver's license as proof of residence, but that Crowley remained unconvinced that he lived in the home. Crowley said that while he "was led to believe" that Gates did indeed live in the home, he felt compelled to make an arrest after Gates allegedly followed Crowley onto the porch and became disorderly. At a press conference soon afterward, Obama said the Cambridge police had "acted stupidly" in arresting Gates. Debates on race ensued, culminating in a hastily arranged "beer summit" at the White House Rose Garden.

You may (or may not) agree with Obama's initial assessment that it was stupid for Crowley to arrest Gates inside his own home. More importantly, was Crowley's decision to arrest Gates a case of explicit racism? Or could Crowley have made the decision to arrest Gates without being overtly hostile to African Americans? For many Americans, it is not difficult to imagine a racist white police officer seeing criminal intent in an innocent black man's behavior and overreacting accordingly. The United States has a long, sad history of open discrimination and mistreatment of minorities by law enforcement and the courts. But James Crowley doesn't fit the profile of a racist. In fact, he teaches a course to police cadets on how to avoid racial profiling.

The evidence suggests that despite having been trained to treat Gates in a color-blind manner, Crowley may have succumbed to subconscious racial biases. In the heat of the moment, the officer had to decide how to respond to Gates. Such snap decisions are especially prone to unconscious bias; the less time we have to think, the more likely we are to fall back on racial stereotypes. In one study, participants in a computer simulation were instructed to shoot criminals, but not unarmed citizens or police officers, who appeared on the screen. The participants incorrectly shot more black men than white men. According to University of South Florida criminology professor Lorie Fridell, the historical animosity between police and minorities in the United States and the widespread stereotype of black men as violent and criminal can cause some police officers to expect less deference or greater aggressiveness from black men.

Most of us do not face the life-and-death decisions that police officers do in the course of their work. Yet all of us are susceptible to making harmful stereotypical judgments about others. If your implicit attitudes, as measured by the IAT, are inconsistent with your conscious views, you should at least take the results as a warning sign about the ways in which you might discriminate without your own awareness. Banaji, who believes that "unlearning" unconscious racism requires systemic change, also advises us to question portrayals of race in the media and to examine our own choices of friends. The less exposure we have to people who are different from us, whether in terms of race, culture, religion, and so on, the more likely we are to view them through a narrow, biased lens. Consider that in the aftermath of his arrest of Gates, Crowley insisted he had acted appropriately and refused to apologize to Gates. However, Crowley was willing to sit down with Gates (and the president and vice president) over a beer. And when the photo opportunity had ended, the two former adversaries met at the River Gods, a bar in Cambridge, out of the nation's eye. This type of open communication and rational reflection can go a long way toward minimizing the mistakes we make in the heat of the moment.

How Egocentrism Fuels Overclaiming

No sort of scientific teaching, no kind of common interest, will ever teach men to share property and privileges with equal consideration for all. Everyone will think his share too small and they will be always envying, complaining, and attacking one another. —Fyodor Dostoyevsky, The Brothers Karamazov

What percentage of the housework do you do? What percentage of the good ideas in your work group come from you? What percentage of the long-term profitability of your organization can be attributed to the efforts of your division? In your firm's partnership with another firm, what percentage of the alliance's success is due to your organization's contributions?

It's impossible to know whether you "overclaimed" credit for your (or your group's) contributions when answering these questions. But research does show that most people view their own input to a group, their division's input to the overall organization, and their firm's contributions to a strategic alliance to be more important and substantial than reality can sustain. Even when people consciously try to make accurate assessments, they still overclaim credit. This overclaiming is at least partly rooted in our bounded ethicality.

Academics have been found guilty of succumbing to this phenomenon. Consider the co-winners of the 1923 Nobel Prize for the discovery of insulin. One of the winners, Frederick Banting, argued that his partner, John Macleod, who was the head of their laboratory, was more of a hindrance than a help. For his part, in speeches describing the research that led to the discovery, Macleod somehow forget to mention that he had a partner. More recently, Max and his colleagues Eugene Caruso and Nick Epley asked authors of four-author articles in the field of organizational behavior to distribute credit for work done on their articles. On average, the sum of the credit that each group member claimed for himself or herself added up to 140 percent. We don't know



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conservation: the Madrid-based International Commission for the Conservation of Atlantic Tunas (ICCAT). Nonetheless, in the decades that followed, stocks of bluefin tuna plummeted. One recent study concluded that even if the fishing of bluefin tuna were banned entirely, the northeast Atlantic and Mediterranean populations would probably collapse nonetheless.²⁷ In recent years, ICCAT has set fishing quotas of about 30,000 tons of bluefin tuna per year, with a plan to lower quotas to 25,500 in the near future. Yet legal catches of the fish are poorly monitored, and illegal fishing of bluefin tuna thrives.

ICCAT has done such a poor job of managing bluefin tuna stocks that some joke the group's acronym stands for "International Conspiracy to Catch All Tunas." Indeed, an outside review panel of experts appointed by ICCAT said the fishery group's management of bluefin tuna was "widely regarded as an international disgrace."²⁸ Why has ICCAT been so ineffective at meeting its mission? Because the ICCAT exerts little control over its forty-six member states, leaving their egocentrism unchecked.²⁹ A solution to the problem lies, at least in part, in recognizing the stronghold that egocentrism exerts on ICCAT members' decisions. Given the unrecognized strong influence of this bias, we cannot expect individual fishers to voluntarily commit to reducing their catch in the name of the common good. Rather, changes are needed at the system level.

In September 2008, at a meeting of the International Union for Conservation of Nature, most countries signed a resolution calling for a moratorium on bluefin tuna fishing, followed by better management and enforcement measures. But after the resolution was signed, governments began backing away from their promises. A spokesperson for the European Union's fisheries directorate complained that a moratorium on bluefin tuna fishing would mean "despair for Italian, Spanish, and French fishermen."³⁰ It is easy to feel sympathy for fishers who will lose their livelihood if tighter fishing quotas are enforced or a total ban on bluefin tuna fishing is put in place. But if the fishery had been effectively managed over the past forty years, fishers could continue to fish without fear of a moratorium. Moreover, for bluefin tuna fishers to have any hope of rebuilding a sustainable fishery for their children and grandchildren, they may need to stop fishing tuna and allow stocks to rebuild. But unsustainable harvesting continues.³¹

The slow extinction of bluefin tuna is just one of many stories of fishery decline and depletion. Throughout the high seas, too many high-tech boats and factory trawlers are chasing after ever-dwindling species of fish. Fishers have wiped out entire fish populations, only to move on to less attractive species of fish. As is the case in the majority of fishing basins throughout the world, cod and haddock were dramatically overfished in the northeastern United States, and shark was overfished off the southeast U.S. coast. Unfortunately, fishers often become interested in solving an overfishing crisis too late in the game. Consistent with other biases within the field of behavioral ethics, this overclaiming occurs without any individual group member realizing that its behavior has ethical consequences. In fact, much of the problem can be traced to different fishing groups believing they are only pursuing their fair share. Yet fishers suffer greatly in the long run from their short-term overclaiming. When Canada was forced to close its cod fishery in 1993, 40,000 jobs were lost. And currently, eleven of the world's fifteen major fishing regions and about 70 percent of the most desirable fish species are in decline.³²

Motivated by this worldwide catastrophe, we created a simulation with Kimberly Wade-Benzoni of Duke University based on the real-life crisis that existed in the 1980s in the northeastern U.S. fishery, back when there was still time to save this fishing basin.³³ The simulation described a conference consisting of four representatives from various commercial and recreational fishing groups. Participants were divided into groups of four, and each participant was assigned to represent one of the four fishing groups. The four fishing groups differed in the degree to which they would benefit from conservation, but collectively, they were better off reducing their harvests by half in order to be able to continue to fish in the future.

Each participant read an overview of the data on the fishing crisis, then gathered with their four-person group for a nonbinding, thirty-minute discussion. Next, we asked each participant to tell us, confidentially, what they perceived the fair allocation of harvesting to be among the four fishing groups, and then to tell us the amount of fish they would harvest over the next year. For each participant, we calculated the percentage of the future harvest the participant believed would be fair for his fishing group to claim. We found (and these results have since been replicated many times) that self-serving interpretations of fairness existed: the sum of the four percentages far exceeded 100 percent. Further, these self-serving interpretations were an excellent predictor of overharvesting in the simulation.

These experimental results suggest that real-world fishing crises and other instances of overclaiming may occur because honest people are egocentric and therefore have honestly different views of what is fair. If this is true, they will not recognize when they make an unfair claim. Creating awareness of the natural tendency to be egocentric and overclaim credit offers a productive focus for solutions to current environmental crises. In fact, teaching individuals about the insidious influence of egocentrism has been shown to be effective at teaching them to recognize the egocentrism of others.³⁴ Thus, before you accuse someone of being selfish, first try to consider the matter from her perspective. Ask yourself if she believes she deserves what she is claiming. Employers, for example, would be wise to spend some time thinking about an employee's sense of self-worth before opening a discussion of the employee's bonus.

Unfortunately, such training on egocentrism doesn't reduce the influence of egocentrism on our own behavior. While we recognize that others are egocentric, we don't believe the bias affects us—an egocentric interpretation of the egocentric bias! To compensate for this problem, some advice offered by philosopher John Rawls proves useful. Rawls proposes that fairness should be assessed under a "veil of ignorance"—that is, we ideally should judge a situation without knowing the role we ourselves play in it. So, when dividing up a pie, one person should be the "pie slicer" and the other should be the first to take a slice.

Overly Discounting the Future

Would you prefer to receive \$1,000 today or \$1,180 a year from now? In controlled experiments, many people choose the former, despite having the opportunity to earn an 18 percent return on their investment. Similarly, homeowners too often fail to insulate their homes appropriately and fail to purchase energy-efficient appliances and fluorescent lighting, even when the payback would be extremely quick and the rate of return far greater than the 18 percent in the problem above. As these anecdotes illustrate, we all too often use an extremely high discounting rate regarding the future. We tend to focus on or overweight short-term considerations at the expense of long-term concerns.³⁵ As a result of this pattern, too many people save far too little for retirement, creating a personal crisis for themselves and for their families.³⁶

The tendency to ignore the future consequences of our actions played out in dramatic fashion in the U.S. housing crisis that began in 2006 and ignited the financial collapse of 2008–2009. During the real-estate bubble, developers and lenders did a booming business that involved building more and more homes and offering home loans to more and more people. Low-income citizens who previously had only dreamed of owning their own home suddenly found themselves courted by real-estate brokers offering low-interest, adjustable rate mortgages (ARMs). In the past, homebuyers had to make a substantial down payment and prove to lenders that they earned enough income to afford their monthly mortgage payments for the next fifteen or thirty years. But as the housing

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bubble expanded, lenders began to lower their standards. Income requirements relaxed. Eventually, some lenders stopped requiring any proof of income at all. Suddenly, it seemed as if every potential "subprime borrower" was taking out an ARM to finance his or her dream home.

Of course, the recipients of these loans should have paused to consider what would happen when their ARMs exploded after three, five, or seven years. Yet few of them did. Overdiscounting the future, they focused narrowly on their low introductory payments. But when the housing bubble began to burst, housing prices fell, interest rates rose, and refinancing became more difficult. For the subprime borrowers who could not afford the new rates on their ARMs, the inevitable result was an epidemic of mortgage delinquencies and foreclosures. Of course, lenders, blinded by the sky-high profits they gained from bundling and selling off subprime loans, are also to blame for failing to anticipate the consequences of handing out loans to unqualified applicants.

The tendency to overly discount the future is not limited to individuals; organizations also are susceptible. One Ivy League university completed a major renovation of its infrastructure without using the most cost-efficient products from a long-term perspective.³⁷ University administrators knew that this decision was a long-term mistake. But because of capital constraints on construction, the university implicitly placed a very high discount rate on construction decisions, emphasizing reduction in its capital costs over the long-term costs of running the building. In the process, the university passed on returns that its financial office would have been thrilled to receive on its investments. In addition, the university was less environmentally friendly than its claims about its future building plans suggested. Collectively, the university's inconsistent discount rate led administrators to destroy value. In contrast, as part of its Green Campus Initiative, Harvard University has set up a fund to finance environmental sustainability projects for different colleges within the university that may have been overlooked because of short-term budget pressures. This initiative reduces the likelihood that university units will make poor long-term decisions as a result of the tendency to overly discount the future. Given the financial disaster that hit Harvard and other universities in 2008, these environmental initiatives turned out to be some of the best investments made by the university.

When an individual or organization applies an inappropriately high discount rate to decisions, behavioral decision researchers tend to treat these mistakes as decision errors. Yet we argue that when others suffer because of a decision and future generations are forced to pay for our mistakes, the problem becomes an ethical issue. Overdiscounting the future is not only foolish, but also immoral, as it robs future generations of opportunities and resources. But many people, organizations, and nations commit these mistakes without any awareness that their behavior is ethically bounded and, in many cases, unethical as a result. When people claim they want to treat the earth with respect, they generally are thinking about their own descendants. But when the time comes to make investments for future generations by reducing our own standards of living, we begin to view future generations as too vague to be fully considered in our choices.

At a societal level, the problems brought about by overdiscounting the future can be severe. Inappropriately high discount rates lead to a broad array of environmental problems, including the ocean overharvesting we discussed previously and the failure to invest in new technologies to respond to climate change. Herman Daly observes that we often make environmental decisions as if the earth "were a business in liquidation."³⁸ We discount the future the most when it is uncertain and distant and when intergenerational distribution of resources is involved.³⁹ Discounting of the future leads to species extinction, the melting of polar ice caps, uranium leaks, and hazardous waste contamination.

The unintentionally unethical behavior that results from overdiscounting the future is not just an environmental issue. It also helps to explain the massive size of the national debt in the United States and in many other countries in the world. As the baby boomer generation nears retirement, the United States will face ever-rising entitlement costs. An aging population, longer life expectancy, and rising health-care costs will combine to make Social Security, Medicare, and Medicaid costs climb sky high by 2030. At the same time, the

ratio of retirees to workers is expected to have doubled between 2000 and 2030. Fewer workers will be contributing taxes to pay for the expenses of millions of elderly Americans.

Republicans typically fight against new taxes and cuts in defense spending, while Democrats resist cuts to social services. Both sides believe they are defending ethical principles. Yet they both pursue their political agenda while collectively ignoring the unethical financial mess they are leaving for future generations. For example, consider President George W. Bush's plan to subsidize the costs of prescription drugs for the elderly. When the plan went into effect on January 1, 2006, it was so convoluted that most Medicare beneficiaries could not figure out how to sign up for it, and many more were unable to receive their prescriptions at the promised discounted prices. The plan's design prohibits the government from negotiating drug prices with pharmaceutical companies, as it does in other federal health programs—a design "flaw" that benefits the insurance companies at the expense of taxpayers and retirees. The much-reviled "Medicare D" plan was projected to cost more than \$1 trillion in the first ten years of its existence and contributed sizably to the \$1.3 trillion deficit facing the country at the end of the Bush administration. Yet, due to the power of special-interest groups, the Democrats did little to eliminate this ill-conceived plan, even after winning control of the executive and legislative branches of government in 2009.

In this chapter, we explored the range of ethical lapses that may be created by bounded ethicality. Specifically, we examined situations within the field of behavioral ethics in which decision makers commonly engage in unethical behavior without realizing they are doing so. Having described the nature of these errors, in the next chapter we will consider why smart, honest people engage in these behaviors and, as a consequence, are less ethical than they think they are.

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lie at the heart of many intractable problems, including environmental conservation, nuclear disarmament, and even group projects at work. In social dilemmas, the easiest individual strategy is to “defect”—to harvest fish that are near extinction, consume fuel, maintain a nuclear stockpile, or slack in your efforts. Yet when individual members defect, the group goal—whether preserving certain species, creating environmental improvements, making a safer world, or completing a project—is often sacrificed. In these cases, if everyone cooperated just a little bit, a lot could be achieved for the broader group. Yet for the individual, pursuing one’s self-interest appears to be the most rational goal.

The decision of whether to participate in a clinical trial is a type of social dilemma because it requires individuals to cooperate in order to help others in the future. Participation does not necessarily improve patients’ outcomes; patients may receive a treatment in a clinical trial that is not only unproven, but possibly not as good as currently available treatments. Many clinical trials are most likely to benefit people who will receive new and better treatments in the future, rather than those who are sick in the present. Moreover, the benefits and costs to the current patient are typically unclear and very hard to assess. The ultimate goal of clinical trials is to improve the quality of medicine so that everyone will eventually receive better treatments and a better prognosis.

Suppose that as you think about the decision to participate in a clinical trial and predict how you would behave, you come to the conclusion that everyone who is qualified should participate in clinical trials when offered the chance. You believe that the “right” choice to make is to contribute to the greater good of advances in medicine and that everyone, including yourself, should do the same. As a result of such thinking, you predict that you would certainly choose to engage yourself or a family member in a clinical trial if the occasion ever arose.

Now fast-forward a number of years and imagine that your child has been diagnosed with a life-threatening illness. Depending on how your child responds to the latest treatment, the prognosis for your child’s five-year survival is between 75 and 95 percent. You have researched your child’s disease to some extent and know that the newest approved treatment has demonstrated significantly positive results.

As you are discussing your child’s disease, the doctor asks whether you would agree to place your child in a clinical trial in which a computer would determine which treatment your child will receive. When you ask the doctor about the comparative efficacy of the two treatments, she tells you that the new treatment is too early in its development for her to be able to answer the question. Are you willing to give up the known, approved treatment for a risky option in which the likely outcome is unknown? Your answer is quick and unwavering: No!

All of us can relate to this type of dramatic about-face. When a decision about your child’s health is purely theoretical, you have the luxury of carefully deliberating and making the decision that is most compatible with your ethics. But if such a decision ever becomes a reality, your ethical considerations related to the greater good are likely to go out the window. Now all that matters is your own child and what is best for her. In the next section, we explain why such behavioral forecasting errors occur.

Decision Time: The Want Self Rears Its Head

Social scientists have long argued that we often experience conflict within ourselves. The most common form of such conflict occurs between the “want self” and the “should self.”⁵ The want self describes the side of you that’s emotional, affective, impulsive, and hot-headed. In contrast, your should self is rational, cognitive, thoughtful, and cool-headed. The should self encompasses our ethical intentions and the belief that we should behave according to our ethical values and principles. By contrast, the want self reflects our actual behavior, which is typically characterized by self-interest and a relative disregard for ethical considerations.

Our research suggests that whether the want self or the should self dominates varies across time. The should self dominates before and after we make a decision, but the want self often wins at the moment of decision. Thus, when approaching a decision, we predict that we will make the decision we think we should make. We think we should confront a sexually harassing interviewer; therefore, we predict we will stand up to one during an interview. We think we should go to the dentist, do our share of the work at home or at the office, stand up to peer pressure, exercise, and eat healthy foods. We think we should cooperate in social dilemmas, even at a personal cost, for the sake of the greater good. In sum, we predict we will make “should decisions,” or those based on our principles and ethical ideals. But at launch time, when we actually make the decision, something entirely different happens.

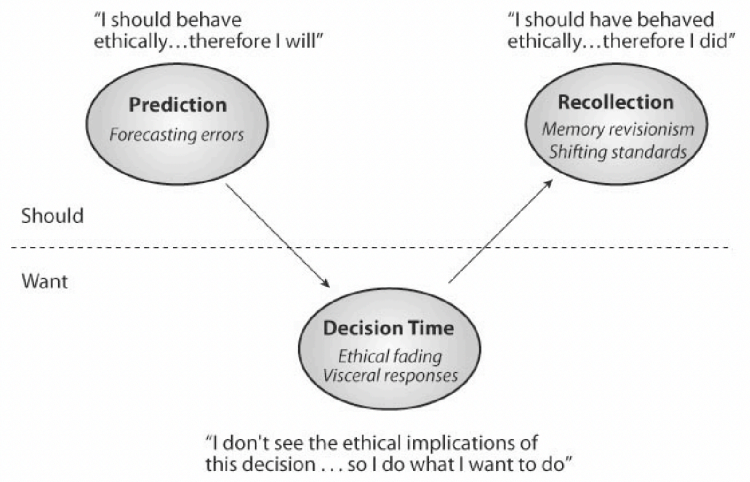


Figure 5. A temporal perspective on the battle between our “want” and “should” selves

When it comes time to make a decision, our thoughts are dominated by thoughts of how we *want* to behave; thoughts of how we *should* behave disappear. A study of movie rental preferences vividly demonstrates the dominance of the want self at the time of a decision.⁶ Consider that we tend to categorize movies we haven’t seen into two basic types: educational or artistic movies that we think we should watch, such as *90 Degrees South: With Scott to the Antarctic*, and movies we actually want to watch, such as *Kill Bill 2*. In Max’s study with Katy Milkman and Todd Rogers, people returned “want” movies to an online DVD rental company significantly earlier than they returned “should” movies, suggesting that the “should” DVDs sat unwatched on coffee tables longer than the “want” movies did. At the time study participants actually decided which movie to watch, the “want” self beat the “should” self.

When ordering movies to watch later, we are in the prediction phase of decision making, forecasting which movies we think we will watch. At this time, we are preoccupied by thoughts of what we *should* watch. An

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should loses. It is only later, behavioral ethics researchers argue, that we engage in any type of moral reasoning. The purpose of this moral reasoning is not to arrive at a decision—it's too late for that—but to justify the decisions we have already made.

Postdecision: Recollection Biases

As we gain distance from our visceral responses to an ethical dilemma, the ethical implications of our choices come back into full color. We are faced with a contradiction between our beliefs about ourselves as ethical people and our unethical actions. This type of discrepancy is unsettling, to say the least, and we are likely to be motivated to reduce the dissonance that results. So strong is the need to do so that researchers found in one study that offering people an opportunity to wash their hands after behaving immorally reduced their need to compensate for an immoral action (for example, by volunteering to help someone).¹² In this study, the opportunity to cleanse oneself of an immoral action—in this case, physically—was sufficient to restore one's self-image; no other action was needed.

Individuals can also restore their self-image through psychological cleansing.¹³ Psychological cleansing is an aspect of moral disengagement, a process that allows us to selectively turn our usual ethical standards on and off at will. For example, Neeru Paharia and Rohit Deshpandé have found that consumers who desire an article of clothing that they know was produced with child labor reconcile their push-pull attraction to the purchase by reducing the degree to which they view child labor as a societal problem.¹⁴ Similarly, Max's work with Lisa Shu and Francesca Gino shows that when people are in environments that allow them to cheat, they reduce the degree to which they view cheating as morally problematic.¹⁵ The process of moral disengagement allows us to behave contrary to our personal code of ethics, while still maintaining the belief that we are ethical people.

Psychological cleansing can take different forms. Just as our predictions of how we will respond to an ethical dilemma diverge from how we behave in the heat of the moment, our recollections of our behavior don't match our thoughts at the actual time of the decision. Our memory is selective; specifically, we remember behaviors that support our self-image and conveniently forget those that do not. We rationalize unethical behavior, change our definition of ethical behavior, and, over time, become desensitized to our own unethical behavior.

Reflecting back on their high school or college days, most people remember an easygoing lifestyle, laughter, fun, and excitement. They may not remember specific conversations or what they did on a daily basis, but their recollections are probably vaguely positive. Most likely, they had very different perceptions of their lives when they were actually attending high school or college. They probably have forgotten the specifics, such as getting up early for an 8:00 a.m. class, suffering through four finals in two days, or obsessing about a boyfriend or girlfriend who failed to call. Similarly, when we reflect on the ethicality of our past behavior, we focus on abstract principles, not the small details of our actions—the forest, not the trees. Instead of thinking about a particular lie that you told or a particular misstatement in your finances, you are likely to think abstractly about your general behavior and to conclude from this perspective that you generally act according to your ethical principles.

Our inflated view of our own ethicality is also enabled by our tendency to become "revisionist historians." After making the decision not to enroll your sick child in a clinical trial but instead to make sure your child receives the best treatment available, you quickly reformulate that decision as an example of your competence and diligence in examining and assessing the available medical options. Self-serving biases are responsible for such revisionist impulses. As we discussed in Chapter 3, two people can look at the same situation very differently, reflecting on what is advantageous to themselves and forgetting or never "coding" that which is not. When we recall our past behavior, these self-serving biases help to hide our unethical actions. The implicit goal is not to arrive at an accurate picture of ourselves, but rather to create a picture that fits with our desired self-view.

If we do remember details, we focus on times when we told the truth or stood up for our principles; meanwhile, we forget the lies we told or the times when we bowed under pressure. Upon looking back at a particular job negotiation, for instance, an applicant might remember that she told the interviewer the truth about where she wanted to live and whether she would be willing to relocate, but conveniently forgot that she lied about how much she was currently earning. Because we are motivated by a desire to see ourselves as ethical people, we remember the actions and decisions that were ethical and forget, or never even process, those that were not, thereby leaving intact our image of ourselves as ethical.

But our self-serving biases are not completely foolproof. Occasionally, we might actually "see" that, yes, perhaps we did behave unethically in a given situation. Typically, however, we find ways to internally "spin" this behavior, whether by rationalizing our role, changing our definition of what's ethical, or casting unethical actions in a more positive light. Bill Clinton argued that he didn't have "sexual relations" with Monica Lewinsky, a lie that he might have justified by changing the standard definition of "sexual relations" in his mind. Similarly, accountants might decide that they engaged in "creative accounting" rather than broke the law.

We are also experts at deflecting blame. Psychologists have long known that we like to blame other people and other things for our failures and take personal credit for our successes. We are able to maintain a positive self-image when we blame problems on influences outside of our control—whether the economy, a boss, or a family member—and take personal credit for all that has gone well thanks to our intelligence, intuition, or personality. A used-car salesman can view himself as ethical, despite selling someone a car that leaks oil, by noting that the potential buyer didn't ask the right questions. Guards responsible for carrying out the death penalty rationalize their actions by placing responsibility on the legal system: "I'm just following the law." And when caught engaging in unethical but legal acts, many people working in business environments are quick to note that the law permits their behavior and that they are maximizing shareholder value.

The hierarchies found in most organizations provide a built-in source of blame: one's boss. Do any of these phrases sound familiar? "I'm just doing my job." "Ask the boss, not me." "I just follow orders." The reverse is also true; bosses face strong temptations to blame their employees for unethical behavior and claim personal innocence. Kenneth Lay rationalized his unethical actions at Enron by blaming Andrew Fastow, the firm's chief financial officer. Lay argued that Fastow misled him and Enron's board of directors about the off-the-book partnerships that eventually led to the company's demise. While admitting that the actions were wrong, Lay minimized his role in them. He preserved his ethical image, at least in his own mind.

Ethical spinning is also inherent in the cliché "Everybody's doing it." We all cheat on our taxes, don't we? So powerful is this rationalization through blanket blame that it was Ben Johnson's defense for steroid use, which cost him his 1988 Olympic Gold Medal. This rationalization itself may be subject to bias. Ann has found that the more tempted we are to behave unethically, the more common—and thus acceptable—we perceive the unethical action to be.¹⁶ That is, the bigger the deduction you'll get for cheating on your taxes, the more likely you will be to believe that others are cheating as well.

If you can't manage to spin your ethical behavior to your advantage, you can always change your ethical standards. In professions that require employees to bill their hours, such as consulting or the law, new employees may strongly believe they would never bill hours they hadn't accrued. As time goes on, however, an employee might once find herself short an hour of the "standard" billable hours. To make up this shortage, she adds fifteen minutes each to four projects. What's the big deal about rounding up? The big deal is what has happened psychologically. The ethical standard to which the employee held herself has shifted. The line between what is ethical and what is unethical has changed.

Once someone has adjusted her ethical standards, the power of her moral principles diminishes. There may no longer be a line she won't cross. This process occurs so gradually and incrementally that she won't discern each step she takes. A month after fudging her time by an hour, the consultant may find she has a two-hour

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deficit. Adding an additional hour for the week becomes the “new normal,” and she doesn’t even code it as being unethical anymore. Over time, the consultant may find herself overbilling by ten hours a week. Previously, she would never have found that amount of cheating to be acceptable under any circumstance, but the decision never involved ten hours of cheating; rather, she made a series of ten one-hour decisions—and a small adjustment to her ethical standard each time. To make matters worse, we can become desensitized as our exposure to unethical behavior increases. For the consultant, as ethical numbness sets in, each one-hour lie becomes less ethically painful. And to take a more dramatic example, prison counselors on “execution support teams,” who work with the families of inmates and their victims, tend to become more and more morally disengaged the more executions they witness.¹⁷

Accounts of Bernard Madoff’s Ponzi scheme suggest just how slippery a slope can become. Madoff’s scheme involved paying certain investors with the money from other investors, a practice that allegedly began when Madoff lost money on trades and needed a little extra cash to cover the losses from those investments. Over time, the amount of cash Madoff needed to cover his losses grew—and so did the extent of his deception. So incremental was the scam that it went unnoticed by regulators for at least thirty years. Why didn’t Madoff’s auditors notice his transgressions? Having analyzed how our own unethical decisions come about, in the next chapter we will consider the related question of how we so often fail to fully notice and act on the unethical behavior of others.



Hanna's behavior—and her denial that she did anything wrong—is an extreme case, and it is a fictional case. However, we argue that Hanna's lack of recognition parallels what many do wrong in the interest of their group, organization, or country. This behavior is consistent with emerging evidence that significant numbers of people are capable of engaging in massive harm without realizing they are doing so. In a 2009 study of 2,800 employees, 49 percent reported they had observed some type of wrongdoing on the job in the previous year, despite the considerable efforts that organizations are taking to improve their employees' ethical behavior. Unfortunately, wrongdoing isn't a new fad: The ethical scandals at Arthur Andersen, Enron, Health-South, Tyco, and WorldCom were preceded by earlier ethical scandals at General Electric, Investors Overseas Services, Lincoln Savings & Loan, Sears, and Shoney's.

Throughout this book, we have noted a core finding of behavioral ethics: that people who have a vested self-interest in a situation have difficulty approaching the situation without bias, even when they view themselves as honest. Here we argue that this bias extends to the observation of others: that is, if you are motivated to turn a blind eye to someone's unethical behavior, you won't see it. The term *motivated blindness* describes the common failure of people to notice others' unethical behavior when seeing that behavior would harm the observer. When party A has an incentive to see party B in a favorable light, party A will have difficulty accurately assessing the ethicality of party B's behavior. Across most major scandals of the last decade, many people—members of boards of directors, auditing firms, rating agencies, and so on—had access to the appropriate data and should have noticed and acted on the unethical behavior of others. Yet they did not do so, at least in part because of the psychological tendency not to notice bad data that we would prefer not to see.

One striking aspect of the story of the credit-rating agencies is how closely it resembles the story of auditing firms that emerged about seven years earlier. The most prominent scandal in the early part of the new millennium was the fall of Enron, the most famous business collapse of our time. How did Arthur Andersen, Enron's auditor, vouch for the firm's financial health during the time that Enron was concealing billions of dollars in debt from its shareholders? Quite simply, Arthur Andersen had ample reason to be afflicted by motivated blindness. In 2001, Andersen earned millions from Enron, then its second-largest client: \$25 million in auditing fees and \$27 million in consulting fees. Andersen had a strong motivation to retain and build on these lucrative contracts. Obviously, finding problems with your auditing client's books is no way to keep it as an ongoing client. In addition, it is likely that many Andersen auditors hoped to be hired by Enron, as a number of their colleagues had been.

Enron's collapse was not unique. Soon after the company's fall, major financial scandals unfolded at other major corporations, including World-Com, Global Crossing, Tyco International, and Parmalat. In each case, auditors were implicated for failing to bring wrongdoing to light. These scandals may not have occurred if members of these firms had taken note of the unethical behavior of their colleagues and clients rather than overlooking it. These cases shed light on a weakness of the U.S. auditing system: it allows motivated blindness to thrive.

Max and his colleagues tested the strength of such conflicts of interest by giving study participants information about the potential sale of a fictional company. The participants' task was to estimate the company's value.⁴ Participants were assigned to one of four roles: buyer, seller, buyer's auditor, or seller's auditor. All participants read the same information, including information that could help them estimate the worth of the firm. Those acting as auditors provided estimated valuations of the company's worth to their clients. As the literature on self-serving biases discussed earlier in the book would suggest, sellers submitted higher estimates of the company's worth than did prospective buyers.⁵ More relevant to this chapter, the auditors, who were advising either the buyer or the seller, were strongly biased toward the interests of their clients: sellers' auditors publicly concluded that the firm was worth far more than did buyers' auditors.

Were the auditors' judgments intentionally biased, or was bounded ethicality at play? To answer this question, the auditors were asked to estimate the company's true value, as assessed by impartial experts, and were told they would be rewarded for the accuracy of their private judgments. Auditors for the sellers reached estimates of the company's value that, on average, were 30 percent higher than the estimates of auditors who served buyers. This evidence shows that, rather than making a conscious decision to favor their clients, the participants assimilated information about the target company in a biased way. Being in the role of the auditor biased their estimates and limited their ability to notice the bias in their clients' behavior. Thus, even a purely hypothetical relationship between an auditor and a client distorted the judgments of those playing the role of auditor. Furthermore, we replicated this study with actual auditors from one of the "Final Four" large auditing firms as our participants and received similar results. Undoubtedly, a long-standing relationship involving millions of dollars in ongoing revenues would have an even stronger effect.

When a client behaves unethically, its auditor doesn't see this unethical behavior for the same reason the client doesn't see its own unethical behavior. Bias in the direction of those who pay their bills (their clients) prevents auditors from distancing themselves from their clients. From the perspective of behavioral ethics, auditors become more like their clients than they would be if no such motivation existed; as a result, they are unlikely to see the unethical actions and biases in their clients' behavior. The client's bounded ethicality transfers to the auditor.

Motivated blindness appears to be responsible for the failure to notice others' unethical behavior in many domains. Consider the widespread use of steroids in baseball. In 2007, Barry Bonds of the San Francisco Giants surpassed Hank Aaron to become the all-time leader in career home runs, perhaps the most valued record in Major League Baseball. Law enforcement agencies, the baseball commissioner, and fans now question whether Bonds's performance truly surpassed that of Aaron. Many believe that Bonds used steroids or other drugs to improve his performance, especially given that his longtime trainer was indicted for supplying steroids to athletes. Similar suspicions have swirled around other MLB superstars, including Sammy Sosa, Roger Clemens, David Ortiz, Manny Ramirez, and others. In July 2009 it surfaced that MLB had known of at least 100 players who had tested positive for using performance-enhancing drugs.

In light of the steroid scandal, baseball fans tend to direct their wrath at the players who cheated (and got caught) for tainting the sport. Yet the nature of competition in Major League Baseball, the related financial rewards, and lax enforcement of drug rules were all contributing factors that gave players a strong incentive to use steroids. In fact, many players may have felt they would have been at an unfair disadvantage if they *didn't* use steroids. Fingers should also be pointed at the MLB commissioner, the San Francisco Giants team, and the players' union. None of these groups investigated the rapid changes in Bonds's and other players' physical appearances, their enhanced strength, and their increased power at the plate as these changes occurred. Given that sports journalists and many fans understood that a massive steroid problem existed throughout MLB, why didn't the commissioner, individual teams, or the players' union address the problem? The answer, we believe, lies in the fact that these groups benefited financially, at least in the short term, from the steroid use of players such as Bonds. Steroid use led to home runs, home runs increased attendance, and increased attendance generated more profit for the league, the teams, and the players. These benefits prevented MLB management from noticing problems it preferred not to see.

Was steroid use that easy to notice? Take a look for yourself. In figure 6 we plot the number of home runs hit by the players with the first-, second-, and third-most home runs each year from 1990 to 2009. The peaks between 1998 and 2001, typically recognized as the height of the steroid era in baseball, should have provided reasonably good evidence for the MLB to act (along with the other evidence available). To rule out the possibility that a few stellar players during this era skewed the results, we averaged the number of home runs hit by the home run leader from 1991 to 1994. This average was forty-four. We then counted the number of players in each year of

who read story A also reported that the behavior in the first story should be punished more harshly. Yet, as you probably noticed, the researcher's behavior was more unethical in story B than in story A.

Why would people view the behavior in story A as more egregious than the behavior in story B? The outcome bias provides an answer.¹⁷ The outcome bias describes the tendency to take results into account, in a manner that is not logically justified, when evaluating the quality of the decision process that a decision maker used. Decision researchers Jon Baron and Jack Hershey were the first to find that in contexts ranging from simple laboratory gambles to medical decision-making, people judge the wisdom of decision makers based on the outcomes they obtain.

Our own research in behavioral ethics finds that people too often judge the ethicality of actions based on whether harm follows, rather than on the ethicality of the choice itself.¹⁸ As in the research on direct versus indirect effects described earlier, people are affected by this bias when they confront one story or instance at a time. Clearly, the ability to see two versions of a story that have transparent differences allows us to avoid the outcome bias and to pay attention to and compare the actions of the two researchers. When this is done experimentally, people rate story B as more egregious than story A. But, as noted earlier, most of the time, the world presents us with one situation to assess at a time. Philosophers have long debated whether we should judge ethical actions based on the rules used to decide which action should be taken or based on the outcome itself. We expect this age-old debate will continue to be fiercely argued. However, when we judge an action based on its outcome and don't consider alternative options or scenarios (as is often the case), this judgment does not reflect the actor's underlying intentions.

The outcome bias is solidly integrated into our laws. Consider the story, told by psychologist Fiery Cushman and his colleagues, of two brothers, Jon and Mark, both of whom lack a criminal record or good marksmanship but possess a quick temper.¹⁹ Imagine that a man confronts the two brothers and insults their family. Vowing to kill the guy, Jon pulls out a gun, but he misses his shot, and his target remains unharmed. By contrast, Matt decides he only wants to scare the man. He pulls out a gun, accidentally shoots the guy in the heart, and kills him. Cushman and colleagues note that in most U.S. states, Matt can expect a far longer prison sentence than Jon. In other words, the law pays more attention to outcomes than to intentions.

Cushman and colleagues have offered a brilliant experiment related to this hypothetical legal story and to the outcome bias. Simplifying the essence of their experiment, imagine that you face a choice between the following two options. You will be playing the game you choose with an unknown other person, also a participant in the experiment.

- Option A: You roll a six-sided die. If it comes up a one, two, three, or four, you get \$10 and the other party gets \$0. If it comes up a five, you get \$5 and the other party gets \$5. If it comes up a six, you get \$0, and the other party gets \$10.
- Option B: You roll a six-sided die. If it comes up a one, you get \$10 and the other party gets \$0. If it comes up a two, three, four, or five, you get \$5 and the other party gets \$5. If it comes up a six, you get \$0 and the other party gets \$10.

Notice that option A is the greedy choice, as it offers you more opportunities (four out of six, to be exact) to claim \$10 for yourself. By contrast, option B is the fair choice, at least most of the time, as it offers four opportunities for the \$10 to be split evenly between you and the other party. Regardless of which choice you make, any of the three outcomes described is possible; it's just their probabilities that differ.

After you choose which game to play, the die is rolled and the money is paid. Cushman and colleagues then allow the other party to punish you, the chooser, by reducing your payment without incurring any cost herself. The fascinating result is that when allocating punishment, the other party typically pays more attention to the

equality of the result of the rolled die—a random outcome—than to the chooser's sense of fairness (as demonstrated by which option she chose). For example, if you chose to be fair and play option B, and then rolled a one, the other party is more likely to punish you than she would if you had greedily chosen option A and rolled a five.

These results clarify our unfortunate tendency to blame people too harshly for making sensible decisions that have unlucky outcomes. Compounding the problem, judging decisions based on their outcomes means that we often wait too long to condemn unethical behavior—until after a bad outcome has occurred. Many people now question the ethics of the Bush administration's decision to invade Iraq in 2003, including its misrepresentation of the "facts" that prompted the war. But criticism of the invasion was limited in much of the United States when it seemed as if the war was going well. When the war began to drag on, many more people began to question the Bush administration's prewar tactics, such as unfounded claims of evidence of weapons of mass destruction in Iraq. The outcome bias may partially explain why so many reserved judgment on the decision to go to war until they knew what the outcome would be. We often fail to take notice of unethical behavior—and condemn it only after a harmful outcome occurs.

We now return to the case of auditors at another level of analysis. For decades, U.S. auditing firms provided both auditing and consulting services to their clients. As we noted earlier, this situation logically and psychologically compromised the independence of their audits.²⁰ Long before Enron's collapse, we had ample evidence that the existing structure compromised the ethics of the auditing profession.²¹ Despite added evidence of the failure of auditor independence and the widespread belief that independence was essential for reliable audits, it took the glaringly obvious failures of Enron, WorldCom, Tyco, and other firms to persuade the U.S. government to address the underlying conflicts of interest that compromised auditors.²² Only these very bad outcomes motivated our legislative representatives to address the problem. But, for reasons that we will explore in Chapter 7, even these changes were insufficient and poorly crafted to solve the core problem.

The outcome bias is related to research on identifiable victims.²³ The "identifiable victim effect" refers to the finding that people tend to be far more concerned with and show more sympathy for identifiable victims than statistical victims. Identifiable victims are specific people, while statistical victims are unknown, unspecified people. People tend to feel more concern for specific victims, even when no useful personalizing information about the victim is available (e.g., only a name is provided).²⁴ Now consider that the same unethical action could harm an identifiable victim, an unidentifiable victim, or no victim at all. Just as we often fail to notice unethical behavior when no victims have yet been affected by it, we are less likely to see the presence of unethical behavior when statistical victims are affected than when the victims are identifiable. Once again, differences in judgments of ethical behavior depend on the outcome of the unethical action, including our perceptions of who was affected, even though the perpetrator's actions remain the same.

The story of Noreen Harrington, a Goldman Sachs veteran who was the whistleblower in the mutual fund late-trading scandal, illustrates how depersonalizing the victims of our unethical behavior allows such behavior to be perpetuated.²⁵ The scandals involved two questionable practices: late trading, or the illegal practice of buying and selling funds after the 4:00 p.m. market close but still receiving the 4:00 p.m. price; and market timing, which involves exploiting prices via time zone differences in international funds, a practice that is legal but can be in violation of fund rules, as it often profits "market timers" at the expense of long-term shareholders. Harrington has said that prior to blowing the whistle on these practices, she viewed them as part of "a nameless, faceless business . . . in this business this is how you look at it. You don't look at it with a face."²⁶ That view changed, she said, when her older sister asked her for advice on her 401(k) account. Her sister, whom Harrington characterized as one of the hardest workers she knew, was worried that the losses she saw in her retirement account would prevent her from retiring.

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Suddenly, Harrington "thought about this from a different vantage point," she explains. "I saw one face—my sister's face—and then I saw the faces of everyone whose only asset was a 401(k). At that point I felt the need to try and make the regulators look into [these] abuses."²⁷

Our own industry—higher education—is not immune from this bias. In our discussion of in-group favoritism in [Chapter 3](#), we discussed the widespread policy of universities admitting the underqualified children of alumni. To our surprise, few commentators have publicly objected to the policy of admitting such underperforming "legacies." The lack of outrage over this ethically questionable practice is likely due in part to the difficulty of identifying the victims of such practices—that is, those who are denied admission. Because the victims of legacy admissions policies are statistical rather than identifiable, people fail to perceive that these practices cause harm, and the behavior of those responsible goes unchecked. Even when we do recognize the negative outcome of such policies in theory, we are often dulled by their lack of vividness when we do not know who was actually harmed.

Behavioral ethics research supports the argument that most people want to act ethically. Yet we still find ourselves engaging in unethical behavior because of biases that influence our decisions—biases of which we may not be fully aware. As we have noted in this chapter, these biases affect not only our own behavior, but also our ability to see the unethical behavior of others. Having completed our overview of the systematic mistakes the human mind makes in ethical domains, in the next three chapters, we will use this knowledge to explore implications for organizations and society, as well as opportunities to change these dysfunctional patterns of behavior.



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Chapter 6

Placing False Hope in the "Ethical Organization"

In 2009, a group of thirty-three second-year MBA students at Harvard Business School wrote an oath that they asked their fellow students at Harvard to sign. The signatories vowed that, upon entering the workforce as managers, they would serve the greater good, act ethically, and refrain from self-interested acts within their organizations (see the oath at right). Within weeks, more than half of Harvard's 2009 MBA class had signed the oath. Soon it went viral, attracting signatures from large numbers of students and graduates of different MBA programs around the world. Some view the oath as a promising sign that new MBAs were rejecting the scandals of the recent past, such as the Bernard Madoff and AIG bonuses, and signaling a new era of corporate social responsibility.

While the attention that the oath brought to the issue of business ethics is valuable, the oath has attracted criticism as well. "There's no cost," Scott Holley, a 2009 Harvard MBA graduate and oath signer, told *BusinessWeek*. "You say the oath, and you're done."¹ Not only did Holley believe the oath would have little impact on managers' behavior, he thought it could become a symbol of hypocrisy if any of the signatories was later involved in an ethical scandal. Holley speculated that those most likely to sign the oath were those who had no intention of complying with it. Other critics have noted that the broad scope of the oath creates a potential clash of goals—such as balancing shareholder interests with the desire to protect the natural environment—that would be difficult to resolve. And some have commented that the oath could be moot if organizational leaders make unethical decisions that undermine the good intentions of individual managers.

THE MBA OATH

As a manager, my purpose is to serve the greater good by bringing people and resources together to create value that no single individual can create alone. Therefore I will seek a course that enhances the value my enterprise can create for society over the long term. I recognize my decisions can have far-reaching consequences that affect the well-being of individuals inside and outside my enterprise, today and in the future. As I reconcile the interests of different constituencies, I will face choices that are not easy for me and others.

Therefore I promise:

- I will act with utmost integrity and pursue my work in an ethical manner.
- I will safeguard the interests of my shareholders, co-workers, customers and the society in which we operate.
- I will manage my enterprise in good faith, guarding against decisions and behavior that advance my own narrow ambitions but harm the enterprise and the societies it serves.
- I will understand and uphold, both in letter and in spirit, the laws and contracts governing my own conduct and that of my enterprise.

- I will take responsibility for my actions, and I will represent the performance and risks of my enterprise accurately and honestly.
- I will develop both myself and other managers under my supervision so that the profession continues to grow and contribute to the well-being of society.
- I will strive to create sustainable economic, social, and environmental prosperity worldwide.
- I will be accountable to my peers and they will be accountable to me for living by this oath.

This oath I make freely, and upon my honor.²

Potentially countering these negative perceptions is the fact that companies and institutions are already spending a great deal of time and money to improve their ethicality. Ethics programs, which include initiatives such as instating codes of ethics, ombudsmen, and ethics training, are designed to convey the values of an organization and the ethical standards the organization expects its employees to meet. In addition, compliance programs, an increasingly important element of ethics programs, are being designed to ensure that organizations meet governmental regulations in the ethics domain. In response to the ethics scandals of the 1990s, for instance, the Sarbanes-Oxley Act of 2002 requires all 9,000 publicly held corporations in the United States to employ "in-house watchdogs," or compliance officers—a position almost unheard of prior to 2002. At Sun Microsystems, the chief compliance officer holds ethics "boot camps" for employees, focusing on business ethics and compliance with Sarbanes-Oxley.³ The company has developed and translated its online courses on federal compliance into at least nine languages. All 32,000 Sun employees are required to take the course, making it the first required training course in the company's history.

The use of compliance initiatives to improve organizational ethics isn't limited to companies that trade on Wall Street. In university athletics, "Compliance officers have become an athletic department's most important employee," writes the *New York Times*.⁴ In a world where violations of intercollegiate rules and regulations can wreak havoc on coaches, players, and the university's reputation, ensuring that everyone plays "by the books" is increasingly viewed as a critical mission.

These initiatives don't come cheap. A recent survey of 217 large firms indicated that for every billion dollars in revenue earned, the average company spends one million dollars on compliance initiatives.⁵ At Sun Microsystems, the costs of compliance initiatives, including the time employees spend in compliance training courses, accountant and auditor fees, and costs borne by the controller's office, are estimated to exceed \$6 million annually. If these efforts worked, many might argue that these dollars—just a drop in the bucket for many companies—are well spent. But that's a big if. As we have highlighted, despite all of the time and money that has been spent on these efforts and all of the laws and regulations that have been enacted, unethical behavior appears to be on the rise.

These results, while disappointing, were predictable. Even the most well-intentioned oaths and ethics programs will fail if the concept of bounded ethicality is not taken into account. One problem with ethics programs is that they assume employees are aware of the rules and know what they need to do to comply with them. As noted in chapters 3 and 4, however, bounded ethicality and ethical fading may obscure whether ethical behavior, and compliance, is even relevant in a given situation.

Oaths, compliance systems, and other organizational attempts at encouraging ethical behavior are not only failing to meet their goal of curbing unethical behavior in most cases, but can actually promote unethical behavior. Why? Because the architects of such systems often neglect to consider how the structure of these programs inadvertently influences unethical behavior. Consider that ethics programs are usually predicated on formal

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systems that hand out rewards for ethical behavior and punishment for unethical behavior. Such efforts are doomed because of the way individuals respond to these rewards and punishments. Moreover, even if we could design a program that took these behavioral responses into account, it still wouldn't be sufficient. Formal ethics and compliance programs represent only the tip of an organization's "ethical infrastructure."⁶ Underlying formal systems are informal norms and pressures that exert far more influence on employee behavior than any formal efforts could. In addition to exploring how individuals react to the incentives of compliance systems, behavioral ethics digs deep into organizations: past their formal ethics programs and into the informal systems that teach employees what behavior is *really* expected of them.

Reward Systems Gone Awry

To understand the flaws built into most organizational ethics programs, consider the case of a parent who is trying to encourage his child to make her bed in the morning. The parent gives the child a star each time she makes the bed, and she can later cash in her stars in exchange for valued toy purchases. The parent is proud of this system, and it seems to work. Each day, the child makes her bed. Soon, however, the parent notices that the child, who used to be in charge of emptying the wastebaskets, is no longer doing so consistently. Upon further investigation, the parent learns that the child doesn't actually make her bed; she simply flattens the comforter on top of her unmade bed.

Like a reward system for chores, the goals of formal ethics programs—to decrease unethical behavior and increase ethical behavior—are commendable and, most likely, have few opponents. The reward systems that are built into these formal programs are based on the underlying premise of goal-setting research: Individuals seek information about behaviors that will be rewarded and then strive to perform well on those behaviors. Yet the downside to goal setting has been ignored, with perilous results. In fact, goals can create systematic problems. Specifically, they can encourage employees to

1. focus too narrowly on their goals, to the neglect of nongoal areas;
2. engage in risky behavior;
3. focus on extrinsic motivators and lose their intrinsic motivation;
4. and, most importantly from our perspective, engage in more unethical behavior than they would otherwise.⁷

Consider the recent financial crisis and its link to faulty reward systems. President Bill Clinton's objective of increasing homeownership by rewarding potential home buyers and lenders is one example. The Clinton administration "went to ridiculous lengths" to increase homeownership in the United States, promoting "paper-thin down payments" and pushing lenders to give mortgage loans to unqualified buyers, according to *BusinessWeek* editor Peter Coy. "It's clear now that the erosion of lending standards pushed prices up by increasing demand," writes Coy, "and later led to waves of defaults by people who never should have bought a home in the first place."⁸

Increasing the percentage of Americans who own a home arguably could be a commendable goal, one that, if accomplished, could result in a more just and ethical society. But Clinton and others who promoted this goal overlooked the way in which such goals change behavior, often in ways that are unintended and undesirable. In this case, the goal of increasing home ownership inadvertently spurred unethical lending by banks and risky decision making by consumers. Artificially imposed rewards, including low interest rates and down payments, were at the center of the epidemic of poor decision making.

To take a more historical example of a governmental initiative to promote ethical behavior and expose unethical behavior, the False Claims Act was passed in 1863 to address fraud by Union Army defense contractors during the Civil War. The act allows individuals and organizations who are unaffiliated with the U.S. government to file a claim against individuals and federal contractors that they believe have directly or indirectly defrauded the government. The goal of the act is to encourage citizens to become whistleblowers by exposing unethical behavior of which the government may be unaware. After a whistleblower files a lawsuit documenting alleged offenses in a U.S. district court, the Department of Justice conducts an investigation and decides whether to pursue the case. The *qui tam* provision of the act stipulates that whistleblowers who expose such cases will be rewarded a percentage of the money that the government recovers, with rewards as high as 30 percent of the recovery amount. Those rewards can be quite substantial: A recent settlement, based on TRW's efforts to prevent a scientist from revealing information about faulty electronic components the company sold to the government, was settled for \$325 million; \$48.8 million of this amount was awarded to the whistleblower and his attorneys.⁹

Clearly, the False Claims Act is well intentioned. It was designed to give citizens a strong incentive to take the personal and professional risks involved in reporting fraud. However, basing rewards on total damages could actually encourage prospective whistleblowers to delay reporting a known fraud, and even to actively participate in its continuance, in order to run up the total amount of damages incurred by the government and thus their percentage of the take.¹⁰ Because of the potential corruption created by this faulty reward system, the reporting of wrongdoing can actually *increase* unethical behavior.

Organizational and governmental leaders have a responsibility to analyze how employees and citizens are likely to respond to proposed incentive systems. But as these examples demonstrate, the architects of reward systems often fail to consider how efforts to accomplish a target goal will cause decision makers to ignore ethical problems in other areas. Reward systems can promote a "whatever it takes" attitude that can be a powerful catalyst for unethical behavior. Such systems can be so effective in directing attention to the "ends"—the potential rewards of compliance and cooperation—that people overlook the means by which they will achieve the goal. As we argued in Chapter 5, the competition and reward systems in Major League Baseball encouraged players and management to meet the goal of winning at any cost, a focus that resulted in a failure to see players' widespread abuse of steroids. For many years, players, who had a narrow window of time in which to cash in on their skills, faced little to no penalties for using steroids.

Corporations affect ethics in numerous ways, many of which have little explicit connection to ethics—until the unethical actions occur and become public. Consider what happened in the early 1990s when Sears gave its automotive mechanics a sales goal of \$147 an hour. To meet this goal, employees overcharged for their services companywide and sold unnecessary repairs to customers. After the scandal was exposed, the company's chairman, Edward Brennan, admitted that the "goal setting process for service advisers created an environment where mistakes did occur."¹¹ The focus on racking up billable hours in accounting, consulting, and law firms creates similarly perverse incentives. Employees end up engaging in unnecessary and expensive projects to meet their often-unrealistic billable hour goals.

Psychologists Barry Staw and Richard Boettger have provided a powerful demonstration of what happens when individuals are told to focus narrowly on achieving a single goal.¹² They asked college students to proofread a paragraph that they were told would be used in a brochure promoting the university's business school. Grammatical and content errors were embedded within the paragraph. Some of the students were told to simply "do your best" when correcting the paragraph. Others were told to focus on correcting grammar mistakes. The researchers found that students who were instructed to "do your best" were more successful at finding both grammatical and content errors than those who were told to focus on correcting grammar mistakes. A narrow goal—namely, the instruction to find grammatical errors—led individuals to overlook obvious content errors.



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In the U.S. health-care system, the focus of for-profit insurance companies on a primary goal—profits—has led to ethical lapses when it comes to meeting other goals, such as health-care delivery. In the midst of his 2009 push for health-care reform, President Obama delivered a speech to Congress in which he accused insurance companies of cherry-picking healthy clients and dropping sick ones. He cited the case of Robin Beaton, a Texas woman whose insurance company canceled her scheduled surgery for advanced-stage breast cancer because she forgot to disclose that she had recently been treated by a dermatologist for acne. According to Obama, the insurance companies make such unethical decisions because they are rewarded for doing so. “They do it because it’s profitable,” Obama said. “As one former insurance executive testified before Congress, insurance companies are not only encouraged to find reasons to drop the seriously ill; they are rewarded for it. All of this is in service of meeting what this former executive called ‘Wall Street’s relentless profit expectations.’”¹³

We don’t find fault with the notion that insurance companies and other businesses should earn profits; in fact, we believe they should. Rather, we blame the reward systems that, by putting the goal of high profits above all others, leave ethical considerations in the dust.

One reason one-dimensional goals fail is because they cause individuals to be driven by an extrinsic motivation to comply rather than by an intrinsic motivation to do what’s right. Let’s return to the problem of accurate reporting of billable hours in the legal, accounting, and consulting fields. Some U.S. law firms have taken steps to increase the transparency of billable hours in an effort to encourage employees to be more honest about where and how they spend their time. This admirable goal translates into requirements for more detailed reporting of one’s time. In some cases, these requirements have generated literally hundreds of codes for specific activities that a legal professional might undertake for a client. One would think that such fine-grained accountability would increase the honesty of reporting, but that’s not necessarily the case. Lawyers have told us that such detailed accounting has the reverse effect. Trying to decide whether a specific research activity falls under category “x.1.2” or “z.2.4” involves some guesswork, they tell us—guesswork that soon becomes a natural component of the billable hour. Small guesses become large guesses, and a system designed to promote ethical behavior backfires.¹⁴

Even when employees do consider multiple goals, the unbalanced attention they give to a primary goal tends to overshadow goals that are less rewarded and therefore viewed as less important. Profit concerns tend to dwarf sustainability efforts; similarly, the goal of on-time delivery can cause firms to sacrifice quality. The case of corporate quarterly earnings is another telling example. Research shows that, in comparison to firms that issue longer-term earnings reports, firms that issue quarterly reports accomplish their primary goal of meeting or beating analyst expectations. However, these firms also devote fewer resources to the less publicized, less rewarded (in the short term) goal of investing in research and development.¹⁵ By focusing on meeting quarterly earnings goals, firms become distracted from other important goals, such as investing in their long-term viability. Moreover, many firms manipulate data to reach their quarterly goals or earning expectations, sacrificing long-term performance in the process. General Electric, for example, was fined \$50 million by the SEC for pretending it had sold 100 locomotives that were actually sitting idle, a move many analysts believed was driven by the desire to meet or beat earnings expectations.¹⁶

Reward systems are usually well intentioned, yet they tend to miss the mark because they fail to anticipate how employees will respond to them. They are simplistic, focusing on a single objective. By ignoring how employees will achieve outlined goals, they produce unintentional behavior, and they discourage desirable behaviors that aren’t rewarded. Like the child who is rewarded for making her bed, employees fail to take out the trash.

How can organizations design more ethical incentive systems? Most obviously, when setting goals for their members, they must try to take the perspective of those whose behavior they are trying to influence and think

through their likely responses. Wall Street analysts and others who are responsible for evaluating firms’ health need to think through the consequences of heavily weighting short-term earnings. By anticipating the potentially adverse behavior their reports and statements could promote, decision makers may find they have overlooked goals that are just as important to reward, if not more important, such as honest reporting. Given that the provision of accurate valuations is arguably our financial system’s most important goal, leaders need to modify the system to include multiple, attainable objectives and appropriate checks and balances. When they fail to meet this responsibility, they can be viewed not only as promoting unethical behavior, but as engaging in it themselves.

The Unintended Effects of Sanctions

In addition to encouraging ethical behavior through rewards, ethics and compliance programs often include sanctioning systems that attempt to discourage *unethical* behavior, typically through punishment. Yet these programs often have the reverse effect, *encouraging* the very unethical behavior they are supposed to discourage.

In a set of experiments, Ann and her colleague David Messick found that the implementation of a compliance system can actually increase the undesirable behaviors the system was designed to decrease.¹⁷ In one study, individuals played the role of a manufacturer in an industry that emits toxic gases. The participants were told that they and the other manufacturers in their industry were concerned that environmental groups would soon target them for emitting pollutants and that such attention would result in costly legislation and expensive “clean” solutions. Participants learned that, to avoid scrutiny from environmental groups, the manufacturers in their industry had met as a group and reached an agreement to run their “scrubbers” 80 percent of the time to clean up some of their emissions. The manufacturers saw this solution as a way to appease the environmentalists. Although running scrubbers is expensive, the manufacturers realized this strategy was less expensive than the legislation and compliance costs that would result if the environmental groups took the industry to task.

Each participant, playing the part of a manufacturer, was presented with the decision of whether to keep her company’s promise and run the scrubbers or to renege on the promise and not run the scrubbers. Imagine that you are in the position of manufacturer X, who knew that his decision regarding whether or not to run the scrubbers would have no impact on whether the environmentalists came after the industry. Why? Because if every other manufacturer kept the promise and ran their scrubbers, then the total emissions level would fall below the radar. The environmentalists would leave the industry alone, whether or not manufacturer X ran his scrubbers. If, on the other hand, every other manufacturer abandoned the promise, then the continued high emissions levels would attract the attention of the environmentalists, and nothing manufacturer X could do would change that. So, independent of what the other manufacturers decided, manufacturer X knew that his least expensive option would be to renege on his promise and not run his scrubbers.

We told half of our participants that there would be no compliance system—in other words, that none of the manufacturers would be monitored or sanctioned to determine whether or not they were adhering to their promise. The other half were told that a compliance system would be in place, such that a small percentage (5 percent) of the manufacturers would be subject to random monitoring to check whether or not they were adhering to the agreement; if they were found to be in violation, they would be sanctioned and subject to a minimal fine.

Did their participants cooperate with the group, or did they behave unethically? As it turned out, whether or not they reneged depended on the presence or absence of a compliance system. Economists would predict that the presence of a possible fine should cause one of two things to occur: (1) there would be zero change in behavior (that is, manufacturers would not run their scrubbers) because the fine was so negligible that it would have no impact, or (2) because the fine made renegeing less attractive, there would be greater adherence and more



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This finding relates to the example of disclosure of conflicts of interest. In Chapter 5, we discussed the problem of conflicts of interest that arise when advisers, such as auditors, have misaligned incentives that cause them to condone unethical behavior or act unethically themselves. When scandals surrounding conflicts of interest arise, organizations, industries, or the government often respond by instating disclosure requirements that compel advisers to reveal the nature of their conflict of interest to their clients. The Sarbanes-Oxley Act, which requires corporations and the auditors that serve them to disclose their conflicts of interest, has been heralded as a means of achieving the goal of transparency and making companies more honest. Most people like the idea of requiring greater openness while still allowing professionals to act as they see fit. The well-intentioned focus on disclosure is based on the assumption that the public will benefit from increased information about an adviser's conflict of interest.

Unfortunately, disclosure isn't a fail-proof panacea for curbing unethical behavior. Not only do disclosure requirements fail to achieve their assumed objectives, they can actually have perverse effects on ethical behavior.²⁶ One interesting experiment reveals why. In the experiment, some participants, "the estimators," were asked to estimate the number of coins in a jar; other participants, "the advisers," were asked to advise the estimators as to the value of coins in the jar. The advisers were allowed to look more closely at the jar than estimators could. Estimators were paid according to the accuracy of their estimates. Some of the advisers were paid based on the accuracy of their estimator's estimate (after receiving the adviser's advice). Other advisers were paid based on how high their estimator's estimate was. Advisers in this condition faced a conflict of interest, as they would be rewarded not for their accuracy, but for estimate inflation. Not surprisingly, this latter group of advisers delivered higher estimates to their estimators than did the advisers who did not face a conflict of interest. More interesting, for our purposes, was what happened when the advisers disclosed their conflict of interest to their estimators: These advisers' estimates were higher and less accurate than those of other advisers; moreover, the estimators didn't discount the advice after learning of the conflict of interest. As a result, advisers actually earned more money, and estimators earned less money, when this conflict of interest was disclosed to estimators. In other words, disclosure actually *increased* the ill effects of the conflict of interest.

The goal of transparency is a rational one, yet it results in unintended consequences when we fail to account for the psychological process of moral compensation. In the study we've just described, disclosure apparently gave advisers a psychological license to severely overestimate the value of the coins. The opportunity to behave morally by disclosing a conflict of interest seems to give people a license to engage in future immoral behavior (inflated estimates, in this case) and therefore to maintain their moral equilibrium.

Managers and other decision makers can mitigate the deleterious effects of moral compensation through the separation of ethical and unethical standards, a zero-tolerance policy for unethical behavior, and standards for ethical behavior that are continually adjusted upward. Moral compensation is significantly less likely when leaders communicate to employees that unethical behavior is distinct and separate from ethical behavior and when they set a separate standard for the two. For example, setting a zero-tolerance standard for unethical behavior, while at the same time setting standards for honest reporting, makes it more difficult for employees to attempt to mitigate unethical behavior through good deeds. Similarly, by continually raising the bar for ethical behavior, organizations make it more difficult for employees to settle in on a comfortable "ethical balance."

The Domination of Informal Cultures

In the 1980s, Ann's father worked on the management side of management-union negotiations in the wholesale food industry. He would come home with colorful stories of the negotiations, describing in particular how union leaders would grandstand in front of their constituents, promising to fight management on any and all concessions

and bring home a victory. Management, he admitted, would present an equally tough stance, steadfast about the need for concessions and their ability to fight to the bitter end. Behind closed doors, however, the theatrics ended. Union and management representatives would turn to each other and politely ask, "What will it take to settle this?"

As this anecdote illustrates, organizations' public, formal norms are often at odds with the informal, often hidden cultures that guide employees' behavior. Like formal policies and communications, informal organizational cultures send signals regarding acceptable behavior, including ethical behavior.²⁷ Formal ethics programs, such as codes of conduct, ethics training, and mission statements, tend to be well documented. By contrast, the signals conveyed through informal cultures do not come from official pronouncements or actions; rather, they are "felt" by organizational members.²⁸ Carrying messages that are heard but not seen, informal cultures represent the unofficial messages regarding ethical norms within the organization. It is through informal mechanisms that employees learn the "true values" of the organization.

Consider the case of an actual company that had a formal code of conduct that exhaustively described the ethical standards that its employees were expected to meet. The code of conduct was deemed so important that all employees were instructed to read the manual and then sign a "Certificate of Compliance" form. That should do the trick, right? Unfortunately, at Enron, it did not.

Like Enron, Johnson & Johnson has well-established codes of conduct (see figures 7 and 8).²⁹ Why, then, have we witnessed such dramatic differences between these two companies in terms of ethical behavior? Differences in the length and content of the two documents are probably not to blame. More likely, the real difference can be traced to the informal cultures in which these formal systems were embedded. Johnson & Johnson is widely known for its ethical culture, the best-known example being the company's voluntary recall of Tylenol during the 1982 cyanide-tainting crisis, a decision estimated to have cost the company \$100 million.³⁰ In this company, its formal code of ethics was consistent with its informal culture. (Some would argue that a recall of numerous Johnson & Johnson medicines in 2010 suggests that this informal culture has lapsed, despite the continued existence of the credo.) By contrast, Enron became notorious for its underlying culture of greed and competition. The company's sophisticated, lengthy formal code of conduct was no match for its unethical informal culture.

Ann and her colleagues Kristin Smith-Crowe and Elizabeth Umphress argue that formal systems are the weakest link in an organization's ethical infrastructure and are typically far eclipsed by their informal counterparts.

³¹ Ralph Larsen, the former CEO of Johnson & Johnson, expressed a similar opinion when he told the *National Journal*, "All the laws in the world cannot ensure that corporate executives will observe them day in and day out."

³² Indeed, one study of employee deviance in the retail, health care, and manufacturing industries found that the formal controls of managers were inferior to the informal social controls imposed by coworkers.³³ Anthropologists argue that such informal systems can be traced to our evolved mental capacity for social organization; by contrast, because formal systems have no evolutionary roots, they are artificial and less influential.³⁴ In groups, informal norms have been identified as the initial forces that guide transactions and other activity. Only as groups grow larger and more diverse do formal mechanisms (such as contracts and codes of conduct) emerge to facilitate their activities.³⁵

Sometimes formal systems are weak because they were purposefully designed to be that way. Specifically decoupled from the organization's "true" inner workings, codes of conduct can be mere attempts to convince outsiders, and particularly investors, that the organization is ethical while disguising its more important goals, such as profit maximization. Research on annual reports offers some support for this perception. Firms that use ethics-related terms such as "ethics" and "corporate responsibility" in their 10-K annual reports are more likely to be associated with "sin" stocks, or publicly traded companies involved in producing alcohol, tobacco, and

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gaming. Notably, firms using ethics-related terms in these reports are also more likely than other firms to be the object of class-action lawsuits and to score poorly on corporate governance measures.³⁶ Apparently, companies in need of a good disguise rely on "ethics marketing" in their annual reports.

If a corporation were truly concerned about its ethics, would it carefully craft compliance systems and codes of ethics designed to address its unique structure and problems, or would it simply borrow the systems and codes of another organization? Interestingly, plagiarism of an ethics code could be a sign that an organization's ethical aspirations may be nothing more than window dressing. One study that compared corporate codes of ethics found substantial levels of similarity in sentences and content.³⁷ In a sample of the Standard & Poor's 500 Index, the average firm had about 37 sentences in its code of ethics that were repeated word for word in other S&P 500 codes. For some codes, the overlap was 222 sentence matches! One of the most common sentences—"Theft, carelessness and waste have a direct impact on the company's profitability"—was traced to an identical sentence in a New York Stock Exchange regulatory document that specifies the topics a company's codes should address. Worse yet, there were some cases of complete ethics code duplication. Formal systems that are borrowed from another firm, rather than reflecting the specific values of an organization, are a shallow overlay with relatively little impact.

Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must be free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens—support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain good order in the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.



Figure 7. Johnson & Johnson Credo. Reprinted with permission from Johnson & Johnson.

Business Ethics

Employees of Enron Corp., its subsidiaries, and its affiliated companies (collectively the "Company") are charged with conducting their business affairs in accordance with the highest ethical standards. An employee shall not conduct himself or herself in a manner which directly or indirectly would be detrimental to the best interests of the Company or in a manner which would bring to the employee financial gain separately derived as a direct consequence of his or her employment with the Company. Moral as well as legal obligations will be fulfilled openly, promptly, and in a manner which will reflect pride on the Company's name.

Products and services of the Company will be of the highest quality and as represented. Advertising and promotion will be truthful, not exaggerated or misleading.

Agreements, whether contractual or verbal, will be honored. No bribes, bonuses, kickbacks, lavish entertainment, or gifts will be given or received in exchange for special position, price, or privilege.

Employees will maintain the confidentiality of the Company's sensitive or proprietary information and will not use such information for their personal benefit.

Employees shall refrain, both during and after their employment, from publishing any oral or written statements about the Company or any of its' officers, employees, agents, or representatives that are slanderous, libelous, or defamatory; or that disclose private or confidential information about their business affairs; or that constitute an intrusion into their seclusion or private lives; or that give rise to unreasonable publicity about their private lives; or that place them in a false light before the public; or that constitute a misappropriation of their name or likeness.

Relations with the Company's many publics—customers, stockholders, governments, employees, suppliers, press, and bankers—will be conducted in honesty, candor, and fairness.

Figure 8. Enron code of ethics. Courtesy of the Department of Justice. http://www.justice.gov/enron/exhibit/02-06/BBC-0001/Images/EXH012-02970.PDFG

Often times, formal compliance programs are weak not because of flaws in their design, but because they are overshadowed by the organization's informal culture. The power of informal cultures to trump formal systems is clearly illustrated in the demise of Enron and Arthur Andersen. In what one observer described as a "quiet dilution of standards and the rise of auditor-salesman," "bluntly honest" auditors within Andersen, particularly those associated with the firm's Professional Standards Group (the "watchdog group" designed to keep its audits honest) were belittled and denigrated, such that they took on second-class status.³⁸ When a former partner of Andersen's Ethics and Responsibilities Business Practices consulting services brought up the subject of internal ethics, she said she "was looked at as if [she] had teleported in from another world."³⁹

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systems, from other employees, and from supervisors. By focusing on the underlying cultures that may counteract formal systems, leaders may be able to make strides toward creating positive informal cultures that reinforce ethical behavior and shun unethical behavior.

Although organizational efforts to create systems that improve members' ethical behavior are often well intentioned, psychological processes limit the effectiveness of such solutions. Unless leaders take individuals' actual decision processes into account, employees and citizens in general will largely ignore these systems or even increase their unethical behavior. In table 1, we summarize the barriers presented in this chapter and describe possible steps you and your organization can take to cope with them. Designing effective systems to promote ethical behavior in organizations requires an understanding of the obstacles that are likely to arise and a set of strategies to overcome them.

Designing Effective Systems to Promote Ethical Behavior in Organizations

Barriers	What problems can arise?	Issues to consider
Reward systems	Reward systems don't consider the means to which people may go to achieve the goals or the potential impact on other goals.	When setting goals, brainstorm all of the side-effects of achieving the stated goal. Involve those who are actually being rewarded and ask them to identify the likely behaviors that will result.
Sanctioning systems	Punishing unacceptable behavior encourages ethical fading and increases the probability that the behavior will be evaluated via a cost-benefit analysis rather than on its ethicality.	Include ethical assessments when making decisions related to personnel, strategy, or operations. Make sure that the question "What ethical implications might arise from this decision?" is asked routinely when considering various options.
Moral compensation	Ethical acts can be used as justification for unacceptable behavior in another domain.	Have separate standards for ethical and unethical behavior. Set a zero-tolerance policy for unethical behavior. Set high expectations for ethical behavior and stress the importance of continually raising ethical standards.
Informal systems	Informal cultures and peer pressure can dominate well-intended formal ethics systems.	Inventory the organization's informal systems and work to understand the underlying pressures on employees. Strive to create positive informal cultures that reinforce ethical behavior and shun unethical behavior.