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Regulating for ethical culture

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abstract

Recent cases of corporate fraud have heightened regulatory interest in leveraging organizational culture to encourage ethical behavior. Policymakers in government and industry wish to use culture to enhance the enforcement-based approaches that they have historically relied on, but they want guidance on how to proceed. In this article, we review the organizational behavior literature on ethical culture. We define the components of ethical culture in organizations and summarize research into how to assess and strengthen it. We demonstrate that assessment must be an integral part of regulatory efforts to strengthen ethical culture, and we recommend that policymakers encourage industries to use standardized, validated measures to further policy goals.

The 1980s are generally remembered as a boom time on Wall Street, with rising market indices and plenty of fraud. The movie *Wall Street* encapsulated the period in the character of Gordon Gekko, with his "greed is good" mantra. The era also brought the savings and loan crisis, which required costly government bailouts of financial institutions, some of which had engaged in pervasive fraud.

Suppose that in 1990, the Justice Department had tasked a team of lawyers and economists with crafting a regulatory approach that would improve the ethical behavior of corporations, especially financial companies. The result would probably look something like the Federal Sentencing Guidelines for Organizations (FSGO), which were published by the U.S. Sentencing Commission in 1991.[1]

The carrot-and-stick approach that the commission adopted incentivized companies to put personnel and procedures in place to guide employee conduct, encourage reporting of misconduct, and monitor and punish wrongdoing. Firms that developed ethics and compliance (E&C) programs that could "prevent and detect violations of law"[1] effectively would benefit by receiving lighter penalties and shorter probation periods if their employees were later discovered to have committed criminal offenses. The FSGO outlined the commission's expectations for reasonable components of E&C programs, including periodic risk assessments, due diligence (with respect to hiring individuals and undertaking periodic evaluations of its E&C program), and an obligation to report the results of assessments.

Since 1991, most large companies have established E&C programs. Many in the regulatory community, however, remain skeptical that the programs are working as the authors of the FSGO intended. They fear that too many are "check-the-box" programs that make it seem like a company is making an effort (by establishing policies and procedures that look good on paper) when, in fact, many employees perceive that the programs are mere window dressing.

In 2004, recognizing that many E&C programs appeared to adhere to the letter of the guidelines but were not seriously integrated into daily organizational life, the U.S. Sentencing Commission revised the FSGO so that companies were obliged to "promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law."[2] This new element, however, left companies and regulators to wonder, How does one create an ethical culture and assess whether a company's culture encourages ethical conduct?

In this article, we offer answers to those questions. In the first section, we provide context, surveying current regulatory initiatives that encourage companies to embrace ethical culture through E&C programs and other measures. Next, we outline the complex systems that constitute an ethical culture, integrating insights from anthropology and the organizational-behavior literature specific to ethical culture. In the final sections, we review the literature on ethical culture assessment and offer recommendations for how to regulate ethical culture in organizations.

Recent Regulatory Interest in Culture

The FSGO remains the main source of guidance for organizations creating internal E&C programs. In recent years, the regulatory and enforcement community, particularly in the financial industry, has come to agree with its stance that creating an ethical culture is key to an organization's successful compliance with regulations. Notably, in October 2014, William Dudley, the president of the Federal Reserve Bank of New York, convened the heads of U.S. financial institutions for the first of a series of Reforming Culture and Behavior in the Financial Services Industry conferences. This meeting occurred at a time of intense scrutiny of the financial industry: in the wake of the global financial crisis of 2008, the Bernard Madoff Ponzi scheme (2008/2009), the J.P. Morgan Chase "London whale" trading scandal (2012), and revelations of collusion by financial institutions in setting the London Interbank Offered

Core Findings

What is the issue?
Assessing and regulating ethical culture in organizations is important for preventing fraud and costly cases of misconduct. In order to know where to begin, however, leaders and policymakers need to know how E&C orientation, leadership, climate, fairness, and trust feed into actionable assessments of ethical culture.

How can you act?
Selected recommendations include:
1) Creating an independent third-party organization to serve as a neutral research entity that conducts assessments of ethical culture, communicating between the industry and regulators
2) Monitoring how an organization's ethical culture changes over time in a process of continual learning and experimentation

Who should take the lead?
Regulators and industry leaders, organizational psychologists, behavioral science researchers

Rate (better known as LIBOR; 2012), among others.

Dudley made a strong case for the importance of measuring and improving ethical culture. He began by rejecting claims that these scandals could generally be pinned on one or a few rogue traders or bad apples. He then gave a succinct definition of organizational culture and argued that the behavior of senior management is critical to establishing ethical norms:

> Culture exists within every firm whether it is recognized or ignored, whether it is nurtured or neglected, and whether it is embraced or disavowed. *Culture reflects the prevailing attitudes and behaviors within a firm. It is how people react not only to black and white, but to all of the shades of grey* [emphasis added]. . . .

> As a first step, senior leaders need to hold up a mirror to their own behavior and critically examine behavioral norms at their firm. . . .

> Firms must take a comprehensive approach to improving their culture that encompasses recruitment, onboarding, career development, performance reviews, pay and promotion.[3]

Dudley then urged the assembled chiefs of financial institutions to develop a common approach to measuring an organization's culture, beginning with an anonymous employee survey:

> An important measurement of progress is employees' assessment of their firm's culture. To this end, we encourage the industry . . . to develop a comprehensive culture survey. This anonymous survey would be fielded across firms each year by an independent third-party and the results shared with supervisors. Having a common survey instrument would promote benchmarking of, and accountability for, progress on culture and behavior.[3]

(Researchers have developed some survey tools, which we describe later. So far, though, most industries lack standardized measures for their fields.)

Other banking regulators, including the Financial Industry Regulatory Authority (the self-regulatory organization for broker-dealers also known as FINRA) and the Office of the Comptroller of the Currency (OCC), have likewise turned their attention to culture as a lever to improve ethical behavior in organizations. In January 2016, FINRA's annual Regulatory and Examinations Priorities Letter[4] to the firms it oversees asked them to report on how they monitor the implementation of and compliance with the firm's cultural values.

The OCC has taken a slightly different approach and put responsibility directly on the banks' executives and boards of directors to integrate the oversight of corporate culture into their duties. The July 2016 *Comptroller's Handbook: Corporate and Risk Governance*,[5] which serves as the guidance document for OCC bank examiners (and thus communicates regulatory expectations to the firms), states that it is the duty of the board and senior management to "promote a sound corporate culture." The handbook lists a series of expected undertakings by the C-suite (that is, the company board and senior management) to this end, including ensuring that the appropriate behaviors are "linked to performance reviews and compensation practices" and that managers "integrate the culture into the bank's strategic planning process and risk management practices."

Clearly, regulators are increasingly focusing on using corporate culture as a tool to prevent misconduct. And they continue to have their work cut out for them, as the ethics scandals of the past couple of years make clear. Recall when, for example, Wells Fargo employees opened accounts for customers without their knowledge or consent,[6] and Volkswagen engineers installed software designed to fool regulators into thinking that the company's vehicles met emission standards.[7] To be successful, regulators need a deep understanding of exactly what an ethical culture looks like, as well as how

that culture can be assessed, reported on, and managed within large, complex organizations.

Regulators would also be wise to familiarize themselves with psychology. Just as economists have expanded their thinking about the drivers of financial interactions to include behavioral economics, regulators interested in enhancing ethical behavior in corporations should read more psychological research, particularly work exploring the drivers of ethical and unethical behavior in organizations. The behavioral ethics literature generally defines *ethical behavior* as activity that is consistent with society's accepted moral norms,[8] and studies found in the literature typically focus on behavior that breaches those norms (for example, cheating, lying, and stealing).

The realms of ethical and legally compliant behaviors overlap to a large extent, because the law represents general agreement in society about what constitutes right and appropriate behavior. However, many of the ethical and unethical behaviors found in organizations simply are not addressed by law and regulation (such as certain conflicts of interest) or have not yet been addressed (such as whether new information technology is being used ethically). Therefore, decisions about what is ethical or unethical reside in a gray area that is open to discussion and social consensus within organizations and society as a whole.

Because organizational culture is being targeted as a tool for managing ethical conduct in organizations, those who are charged with managing and regulating it need to have a firm grasp of what an ethical culture looks like. We now step back to examine its features in detail.

What Is Ethical Culture?

The word *culture* comes from the Latin word *cultura,* which means cultivation or tillage. The agricultural origin of the word conveys the sense of shaping or nurturing something over time. Like plants, people are rooted in a particular place, and they are shaped by the norms of that place. For example, when employees show up for work in a new organization, they quickly

get a sense of "how things are done around here" and what kinds of behaviors are accepted and expected.

Culture has been the central concept in anthropology for over a century, and anthropologists have taken the lead in defining the term. Writing in 1995, Richard Shweder, one of the founders of modern cultural psychology, gave this definition:

> Culture is a reality lit up by a morally enforceable conceptual scheme composed of values (desirable goals) and causal beliefs (including ideas about means-ends connections) that is exemplified or instantiated in practice.[9]

Shweder's definition notes that culture is more than conceptual schemes and beliefs: it envelops people and creates a reality that is expressed and passed on to others by the practices and rituals of the group. Most important, Shweder's definition explicitly recognizes the role of morality in enforcing the group's ways of thinking and acting. A company's moral norms can lead employees to engage in upright behavior, but only if socially beneficial behavior is what is modeled. If the culture includes unethical practices, such as cheating customers, then going along with those practices can seem like a moral necessity to insiders. An employee who violates the implicit rules of the culture by exposing its practices to outsiders—or who just tries to change it from within—may face criticism, shaming, and ostracism. For such reasons, social psychologists generally focus on the "bad barrel" rather than on individual "bad apples" when they study wrongdoing in organizations.[10]

Shweder's approach aligns with the definition of ethical culture in organizations that one of us (Treviño) has used for years: if culture can be thought of as "how we do things around here," then ethical culture is the employees' understanding of "how we do things around here in relation to ethics."[11] More specifically, an organization's ethical culture is a complex system with multiple moving components that constantly send messages to employees that either support or do not support ethical conduct. The

behaviors of leaders and the activities carried out through a company's systems for managing and improving employee performance are just two powerful examples of an organization's activities sending signals, both formal and informal, to employees about an organization's ethical culture.

Regulators and corporate leaders also need to understand that ethical culture is not an objective truth. Rather, it comprises the messages that employees perceive they are getting and that they are acting on every day, not necessarily the messages that management intends to convey. An organization's efforts to study and improve its culture must therefore include direct questions asking its employees for their perceptions of the multiple aspects of ethical culture.

In a perfectly ethical culture (a rare bird), all of the culture components consistently send a clear message that ethical conduct is expected. Employees are recruited on the basis of and then socialized into a set of aspirational values, rules, and codes that are designed to guide behavior in the gray areas. These are upheld every day by communications from leaders and by role models and are supported by a reward and discipline system that sends consistent messages about expectations and accountability. In a perfectly unethical culture (also rare, thankfully), all of the culture components send a clear message that unethical conduct is expected and rewarded. Employees find that they need to get with the program or leave. Most organizations, however, fall in between these two extremes. Employees receive mixed messages from different components of the culture, leaving them to make sense of what

"If the culture includes unethical practices, such as cheating customers, then going along with those practices can seem like a moral necessity to insiders"

behaviors are expected of them and what they should and should not do. These cultures are in need of assessment and intervention just as much as perfectly unethical cultures are.

Figure 1 depicts the constituents of an organization's ethical culture. Employee behavior is influenced by the messages received from formal and informal cultural systems. The formal systems include the official communications and actions of the executive leadership, employee selection systems, policies and codes, orientation and training systems, performance management systems, organizational authority (hierarchy) structures, and decisionmaking processes. The informal systems consist of role models (managers at all levels), norms of daily behavior, rituals that help members understand the organization's identity and what it values, myths and stories people tell about the organization, and the language people use in daily behavior.

Note that the tone set at the top of an organization trickles down to influence all other

Figure 1. Components of an ethical organizational culture

Formal Systems	**Informal Systems**
Executive Leadership	Role Models and Heroes
Employee Selection Systems	Norms
Policies and Codes	Rituals
Orientation and Training Systems	Myths and Stories
Performance Management Systems	Language
Organizational Authority Structures	
Decisionmaking Processes	
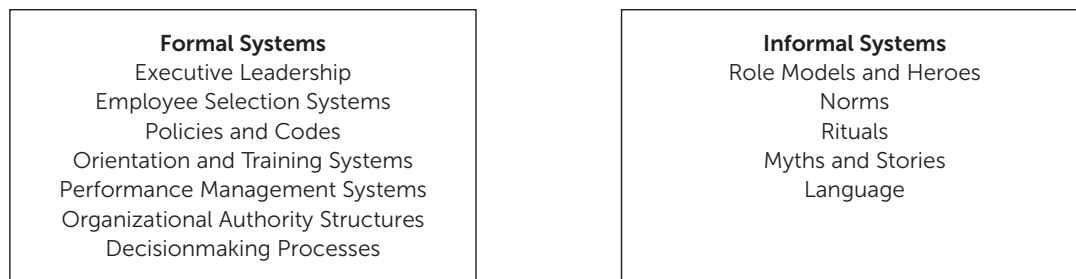
elements, including leadership at lower levels. Senior leaders are critical to establishing an ethical culture—they provide resources for effective programs, send values-based messages, and serve as role models for ethical behavior and the use of ethical language. They have the potential to influence every other system within the organization.

Critically, leaders also need to attend to the alignment of the organization's cultural systems. When all of the constituent systems support ethical behavior, the company will have an ethical culture, although it needs constant attention to keep it that way. When the culture is in a state of misalignment—when cultural systems send mixed messages—the company is less likely to have an ethical culture. For example, employees pay close attention to what the performance management system rewards; many employees will assume that messages about bottom-line performance are the real messages they should be attending to, and they will behave accordingly.

The most direct way to evaluate ethical culture is to measure employee perceptions of both the formal and the informal systems and the alignment or the misalignment of those messages. Next, we discuss methods for assessing culture in organizations, and we present evidence that using and tracking those measures can lead to more effective E&C programs.

How to Assess Ethical Culture: The Big Picture

One important guideline for assessing ethical culture is that success depends on corporate policymakers, including the chief executive officer (CEO) and the board of a company, being driving forces in the process. In many organizations, a chief ethics officer advocates for ethical culture assessments, but for an assessment effort to be effective, senior leadership's full support must be clear. The effort must also have the backing of other internal stakeholders, such as the human resources department.

Although CEOs have a crucial role to play, most do not have the time to also be the chief

ethics officer. Yet, like a garden, an ethical culture must be constantly tended. An organizational leader with credibility and authority needs to be thinking about and nurturing the organization's ethical culture every day and ensuring that weeds and pests do not begin to take over—something that can happen very quickly, unraveling all that has been so carefully built over time. This role should fall to a highly respected ethics officer who has the full support of the CEO and the board (as well as an independent relationship with the board). Then the CEO must model the right behaviors, provide resources for building and sustaining ethical culture, and consistently back the endeavor by aligning internal systems.

Executives in upper management must also recognize that their own perceptions of the organization's ethical culture are almost certainly rosier than are the perceptions of rank-and-file employees. Research indicates that top managers are often the last to know about an unethical or misaligned culture.[12] Their elevated status may render them oblivious, or their people may be unwilling to tell them what is really going on. Bad news does not travel up very effectively in most organizations. Recent research also suggests that higher ranking employees are less likely to engage in principled dissent—to report and act on unethical behaviors they observe—perhaps because they identify so much with the organization.[13] So it is essential that managers recognize their own limitations and biases and rely on good data that are based on employee perceptions at all levels of the organizational hierarchy. It is a safe bet that lower level employees are the ones who know what is really happening in an organization.

The tools chosen to assess an organization's culture are also critical. Unethical behavior is difficult to observe because it is purposely kept hidden. Therefore, anonymous surveys and focus groups (often in combination) have been the assessment methods of choice. Done right, those approaches are useful. What does not work is relying on compliance officers who simply note the existence of program elements (such as an employee orientation program

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1991

Year in which the U.S. Sentencing Commission published the Federal Sentencing Guidelines for Organizations (FSGO)

E&C

Corporate Ethics and Compliance program responses to the FSGO

2004

FSGO revised to include ethical culture

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"if regulators access the underlying data generated by assessments, then respondents will be motivated to influence, alter, or withhold the results of assessments"

that describes the company's values and an accompanying training program on the code of conduct) or including a couple of broad ethics-related questions on the annual employee survey. Unfortunately, the latter is what many organizations are currently doing, if they are doing anything at all to assess whether their culture is ethical.

As Dudley urged in 2014, companies should use a validated, reliable, and standardized way of assessing "how we do things around here" with regard to ethics.[3] Yet having the right tools alone is not enough. Who conducts the assessment and who can access the data can influence whether the final data are informative and used appropriately. The regulatory challenge, however, is that if regulators access the underlying data generated by assessments, then respondents will be motivated to influence, alter, or withhold the results of assessments. Bodies that regulate an industry should therefore create incentives for the industry to create an independent third-party organization to serve as a neutral research entity that conducts assessments and facilitates communication of their results between the industry and regulators. The regulatory stick in this instance can be penalties against companies that do not participate in such industry initiatives.

We know of two effective models of industry-based self-governance organizations: (a) the Defense Industry Initiative on Business Conduct and Ethics, comprising 77 signatory companies that are U.S. Defense Department contractors,[14] and (b) the U.K. Banking Standards Board, created after the global financial crisis to promote high standards of behavior and competence across the banking industry in the United Kingdom and currently comprising 31 member companies.[15] Neither of these was created because of a law or regulation, although the U.K. Banking Standards Board was a response to

recommendations made by the Parliamentary Commission on Banking Standards.

The standardization of assessment tools is important because it can enable companies in an industry to compare their results against those of other firms of the same size and circumstances. Such comparisons are helpful because firms in the same industry are likely to face similar ethical issues and circumstances (such as the regulatory environment). Standardization also encourages voluntary sharing of information across organizations, quickening the pace of learning about what works to improve culture. Moreover, standardization allows companies to measure their ethical culture against their own ethical aspirations, values, and goals, and it can provide longitudinal data to indicate whether new ethics-promoting policies and interventions are working as planned.

Some of the top academic researchers in behavioral ethics have already developed many of the tools necessary to assess the various features of an ethical culture; those features and tools are reviewed in the next section. We recommend the measures described there, which are drawn from published analyses, because they have been validated using sophisticated psychometric procedures that ensure the approaches can accurately and reliably measure what they are intended to measure.

Ideally, companies would assess employee perceptions of all components of the multi-system framework that constitutes ethical culture, as described in Figure 1. Validated survey measures do not yet exist in the literature for every component, however. To address this gap, Ethical Systems, where one of us (Filabi) works and two of us (Treviño and Haidt) participate as Steering Committee members, has convened the Ethical Systems Culture Measurement Working Group. The group, consisting of prominent behavioral ethics researchers, is

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conducting research to develop the needed assessment tools. (See note A.) The data collected in the project will be used to study the relationships among elements of ethical culture and to determine their relative effects on important outcomes, such as observed unethical conduct and the likelihood that employees will report problems to management. Future phases of the project will include additional modules on other aspects of the multisystem framework of ethical culture.

Past research has uncovered ways to increase the truthfulness of survey results. Employees are likely to complete surveys and do so honestly if they know their responses are anonymous, if they trust that their responses will not be traced back to them, and if they believe that the results will be used for a good purpose. Hence, it is extremely important to have a trusted third party collect and manage the data, delivering results to management that do not identify individuals. Obviously, if employees view management as corrupt, they may distrust anyone brought in by management. And employees who are benefiting from a corrupt environment will probably be dishonest to maintain the status quo. But, in our experience, most employees would prefer to work for an ethical organization, will participate, and will provide truthful feedback.

Survey administrators can further increase the trustworthiness of the results by including a measure of social desirability bias (the tendency to give answers that employees perceive researchers or managers want to hear) and by controlling for that bias statistically in the data analysis. Social desirability bias can also be minimized by asking about observed unethical conduct (for example, by asking, "How frequently have you observed a certain kind of unethical behavior in the organization during the past year?") rather than by having employees report on their own unethical conduct. Employees are more honest when reporting on observations.

As long as individuals are not identifiable, it is also helpful to collect and analyze data in a way that enables the organization to learn whether the members in a unit agree that the unit has

ethical culture problems. Ideally, units with such problems can be spotted and their problems addressed. For example, by examining unit-level data, a firm could learn that a particular division has a more unethical culture than other divisions do, suggesting a need for intervention. At that point, focus groups might be convened to delve more deeply into issues that surface in the survey. Trusted outsiders can also be brought in to run these focus groups and thereby assure employee anonymity. Results of surveys and focus groups (the good, the bad, and the ugly) should be shared with employees, along with plans for intervention, so that they know the results are being taken seriously.

How to Assess Ethical Culture: The Nuts & Bolts

Employee perceptions of the following five aspects of ethical culture have a profound effect on their behavior. Assessing these perceptions can reveal where interventions and changes are most needed.

1. Orientation of E&C Programs

In 1999, Treviño and colleagues carried out a large-scale study to investigate which aspects of E&C programs support or interfere with an organization's goals for ethical behavior.[16] They administered a survey to more than 10,000 randomly selected employees at all hierarchical levels in six large U.S. companies across a variety of industries. Their results have important implications for how policymakers should define the effectiveness of E&C programs, as well as for how companies should manage such programs.

In the study, they assessed program effectiveness by focusing on seven outcomes that are relevant to the success of any E&C program (see Table 1 for the complete list of desired outcomes). The investigators concluded that, among other elements, an effective E&C program is one that reduces observations of misbehavior, increases awareness of ethical issues, and increases the likelihood that employees will speak up about problems to managers as well as report misbehavior via other channels established by the company.

Table 1. What is an effective ethics & compliance program?

Effective ethics and compliance programs achieve the outcomes listed below. Program effectiveness can be evaluated in part through surveys of employees. Assessments often ask respondents to rate statements on a sliding scale. The sample items here come from a survey developed by Linda K. Treviño and her colleagues.[A] Outcomes 2 through 7 are evaluated using a 5-point scale that ranges from *strongly disagree* (1) to *strongly agree* (5).

Program outcomes	Sample survey items
1. Reduced observations of unethical and illegal behaviors.	On a scale of 1 (*never*) to 5 (*very frequently*), indicate how often have you observed each of the behaviors listed below during the past year: (A list of 32 behaviors can be adjusted to best fit the needs of the organization. Examples of behaviors to evaluate include lying to customers, padding an expense account, falsifying financial reports, giving kickbacks, stealing from the company, and misusing insider information.)
2. Increased employee awareness of ethical and legal issues that arise at work.	Employees in this company are quick to notice when a situation raises ethics or compliance issues.
3. Creation of conditions that increase employee willingness to seek ethical and legal advice within the company.	When ethical issues arise, employees look for advice within the company.
4. Increased employee willingness to report bad news to management.	Employees here are comfortable delivering bad news to their managers.
5. Increased employee willingness to report ethical violations to management, such as via ethics hotlines (often anonymous) and other reporting channels.	If someone here knew that a coworker was doing something unethical, he or she would report it to management.
6. Increased employee perception that the program is contributing to better (and more ethical) decisionmaking in the organization.	People in this firm make more effective ethical decisions because of the ethics and/or compliance activities that are in place.
7. Increased employee commitment to the organization.	I feel attached to the company because of its values.

A. Treviño, L. K., Weaver, G. R., Gibson, D. G., & Toffler, B. L. (1999). Managing ethics and legal compliance: What works and what hurts. *California Management Review, 41*(2), 131–151.

Treviño et al. also found that employee perceptions of program orientation are extremely important to the outcomes of any E&C program.[16] The researchers identified four orientation categories: (a) values based, rooted in self-governance and intrinsic motivation; (b) compliance based, focused primarily on preventing, detecting, and punishing legal and policy violations; (c) external stakeholder based, focused on maintaining relationships with customers, the community, suppliers, and others; and (d) protection based, focused on shielding top management from blame in the face of legal or ethical problems. To assess employee perceptions of program orientation, Treviño et al. asked survey respondents to choose from a list of goals to indicate what they believed the company's E&C policies and activities were designed to accomplish (for instance, support employee goals and aspirations, encourage shared values, or detect unethical employees). The researchers then determined whether and how strongly those responses each correlated with the criteria for effectiveness—the desired program outcomes, as described in Table 1.

The programs that employees perceived to have a values-based orientation scored highest on each of the seven effectiveness criteria in Table 1. Compliance-based and external-stakeholder-based orientations were not as powerful but were still helpful. The researchers also found a clear marker of a bad program: employee perception that the E&C program was oriented toward protecting top management from blame. When the protection-based orientation was perceived, more unethical or illegal behaviors were observed, employees were less aware

"self-interested ethical climates increase unethical behaviors"

of ethical issues, and employees were less likely to seek advice about ethical concerns.[16]

In practice, the program orientation of most companies is probably best described as a hybrid. The data suggest that a primarily but not entirely values-based orientation can nonetheless be highly effective at improving ethical behavior if it is backed up with accountability systems and discipline for rule violators (elements that tend to be emphasized in compliance-based orientations).

2. Ethical Leadership

Treviño et al. also found that leadership is one of the strongest drivers of ethical culture.[16] In a later study, published in 2005, Michael Brown, Treviño, and David Harrison developed a model of ethical leadership that builds on Albert Bandura's social learning theory, which focuses on how people learn by observing others.[17] To influence followers' ethical behavior, they found, leaders must be credible and legitimate role models and be able to influence others, and they must model correct behavior by behaving ethically, communicating about ethics, setting high ethical standards, and holding employees accountable to those standards.

How can policymakers assess whether an organization has ethical leaders? Brown et al. developed an empirically validated 10-item Ethical Leadership Scale[17] that has since been used in many studies to show that ethical leadership correlates with increases in employee satisfaction, commitment to the organization, citizenship behavior, and willingness to report problems to management, as well as in a reduction in unethical behavior. Most of this research has been conducted among middle levels of management, supporting the idea that direct supervisors are at the front lines of building and sustaining an ethical culture.

3. Ethical Climate

In 2012, Anke Arnaud and Marshall Schminke published a paper on the role of egoism in shaping organizational ethics—that is, in establishing an ethical climate that is either self-interested or other-interested.[18] They developed and validated a 20-item instrument to measure ethical climate, as well as empathy and efficacy. To assess climate, they had employees rate their agreement with such statements as "People in my organization/department are very concerned about what is best for them personally," "People around here are mostly out for themselves," and "People in my department are actively concerned about their peers' interests."

Their research built on earlier work by Bart Victor and John B. Cullen[19] and by Kelly D. Martin and Cullen[20] on ethical workplace climates, which demonstrated that self-interested ethical climates increase unethical behaviors (such as theft, lying on or falsifying reports, accepting bribes, and employee deviance) and that the inverse is also true—that nonegoistic (benevolent) climates positively influence ethical outcomes.

In their 2012 study, Arnaud and Schminke found, however, that an ethical climate alone may be insufficient to lead to ethical behavior.[18] In other words, when employees generally agree on the right thing to do, the organization may not see a reduction in unethical behavior unless employees also collectively feel empathy toward the target of their behavior (such as the client, other employees, or other stakeholders) and believe they have the capacity to influence outcomes through their own actions (efficacy). The evidence showed that assessing employee perceptions of their colleagues' empathy and efficacy provides a more complete picture of how strongly the informal norms of an organization can reduce misbehavior. (See note B.)

4. Fairness

Treviño et al. determined in 1999 that fair treatment of employees is another important aspect of culture—as would be expected, given that organizational justice affects so many elements of day-to-day work, including compensation, promotion, and perceptions of whether

all voices are heard equally. They reported that employees' perceptions of general fairness within an organization (as indicated by responses to statements such as "This organization treats its employees fairly"); fairness of rewards and punishments; and whether supervisors treat employees with courtesy, dignity, and respect all strongly correlated with each of the outcomes described in Table 1.[16] The two strongest correlations were between perceptions of fairness and (a) an employee's commitment to the organization and (b) an employee's willingness to deliver bad news to management.

These findings are consistent with those of recent research by Maureen Ambrose and Schminke.[21] Ambrose and Schminke developed the Perceived Overall Justice (POJ) scale, a six-item survey that asks employees to rate their agreement with three statements related to their perceptions of fair treatment (such as "Overall, I'm treated fairly by my organization") and three statements related to the organization more generally (such as "Overall, this organization treats its employees fairly"). The researchers found statistically significant correlations between POJ scores and outcomes such as employee job satisfaction, commitment to the organization, and intention to leave. They also found strong correlations with outcomes that were not self-reported—such as supervisors' assessments of how well employees performed on a task, whether they were good organizational citizens, and whether they engaged in behaviors that were harmful to the organization (organizational deviance).

5. Trust

The decision to trust another person or a company and its products is often based on a calculation of the trustworthiness of the other party. Measures of trust have been developed on the basis of the theory that a decision to trust can be assessed by considering an individual's willingness to be vulnerable and thus take the risk of putting faith in the other party. In 2006, David Schoorman and Gary Ballinger developed a seven-item scale to assess an employee's willingness to trust a supervisor.[22,23] The scale integrates constructs relating to the supervisor's ability, benevolence, and integrity. Sample statements rated by employees include "If my supervisor asked why a problem occurred, I would speak freely even if I were partly to blame"; "It is important for me to have a good way to keep an eye on my supervisor"; and "Increasing my vulnerability to criticism by my supervisor would be a mistake."

Evidence shows that trust pays. That is, high-trust environments result in more efficiency, more employee engagement, and better financial performance for organizations.[24,25]

How to Regulate Ethical Culture

We started this article by noting that regulators want guidance on how to assess whether companies have an ethical culture. Further, they want to be able to judge whether efforts to enhance ethical culture are translating into E&C programs that, in fact, increase ethical behavior.

Regulators can begin to address the first need by requiring companies to assess the state of their ethical culture regularly through surveys of employees, preferably ones that are standardized for the relevant industry. Although regulators cannot and should not attempt to mandate what the culture should be at a firm, they can require that each firm study its own culture to assess how the culture could be contributing to misconduct by employees and management. For example, if employees indicate that they are unlikely to report the misconduct they observe, because they do not believe management will take any action on their reports or they fear retaliation, regulators should expect that the organization will take that information seriously, search for root causes of the problems, and act to change systems that encourage such behavior and accompanying perceptions. Policymakers (including those who determine internal corporate policies) should also carefully consider who should have access to the results of culture assessments. On the one hand, access by regulators could incentivize firms to try to game the system or could make employees less forthcoming about their opinions; on the other hand, without regulatory pressure, many firms may be unwilling

or unlikely to delve deeply into their ethical cultures.

Once baseline measures are in hand, firms should be encouraged to design interventions, monitor how their ethical culture changes over time, and determine whether targeted interventions are working. Companies can develop a process of continual learning and experimentation. For example, the baseline culture data can be used to understand the impact of various internal or external initiatives at the firm—such as whether revising compensation plans improves or damages ethical culture, whether a revamped training program alters employee perceptions of the culture, or whether the addition of an ombudsman program changes perceptions of the safety of speaking up.

To determine whether all these activities result in E&C programs that increase ethical behavior, policymakers can begin by encouraging companies and regulators to use the outcomes that indicate effectiveness provided in Table 1 and supplement those with additional outcomes that are particularly relevant for them. Ideally, a firm would also use internal data to measure ethical behavior, such as the firm's pending (defense) litigation matters, the frequency and underlying causes of regulatory enforcement actions by regulators, human resources data on the amount and kinds of reported misconduct, and the number of ethics-hotline calls made by employees and customers (although tying hotline calls to E&C effectiveness can be challenging).

Many in the E&C field have considered it extremely difficult to determine program effectiveness, because an effective program should prevent problems, and one cannot measure problems that have been avoided. They are right to an extent, but we have shown in this article that ethical culture can be assessed, interventions can be designed, and progress in outcomes can be monitored. The combination of self-reported survey data and other internal data can reveal how the firm's E&C program and culture are influencing outcomes. A more effective program would be associated with positive outcomes (such as an increased willingness

of employees to deliver bad news to management) and negatively correlated with negative outcomes (such as pending defense litigation or regulatory enforcement actions).

Conclusion

Would assessments of ethical culture over time have prevented recent corporate scandals, such as those at Wells Fargo or Volkswagen? Yes, but only if employees reported honestly and senior management and the boards of directors gave those assessments credence and took serious action. Leaders who tend the ethical culture garden notice when weeds are sprouting and spreading. If the leaders at Wells Fargo and Volkswagen had done that, senior management would have been more attuned to the profound effects of their statements, actions, and policies on their employees. They would have been more aware of how their unattainable performance goals were being pursued unethically at lower levels. As ethical leaders, they would have been more approachable and open to input about the inability to achieve, without fraud, the very demanding goals that were set at the top. Middle managers and employees would have felt more empowered to speak up (anonymously, if necessary), and, in an ethical culture, their concerns would have been taken seriously.

Government policymakers and regulators should attend to the above recommendations for how to conduct assessments of culture and should integrate those assessments into their regulatory processes. Corporate policymakers, such as the CEO and board members, should also integrate ethical culture assessment into their efforts to proactively manage ethics and to use ethical culture as a lever to increase ethical conduct throughout their organizations. (For further discussion, see Policies That Encourage the Create of Ethical Organizational Culture.)

Researchers have learned a lot about conceptualizing and measuring ethical culture in organizations, but much more work remains to be done. For example, in this article, we have emphasized survey approaches. A full understanding of ethical culture, however, would also require qualitative approaches, such as

Policies That Encourage the Creation of Ethical Organizational Culture

To increase ethical behavior in organizations, policymakers and regulators should encourage organizations to undertake the following measures:

- **Assess ethical culture regularly.** A culture assessment, which evaluates perceptions of norms and behaviors, should be carried out in addition to an assessment of employee perceptions of the formal ethics and compliance (E&C) program. Use standardized and validated surveys that measure employee perceptions of the ethical orientation of E&C programs, ethical leadership, the fairness of the organization, and the trustworthiness of the company and its leaders, among other factors. Industries should consider having a trusted third party conduct sector-specific surveys, a method that can increase the honesty of the respondents.

  The Defense Industry Initiative (DII) on Business Ethics and Conduct, which represents several dozen companies that contract for the government, has worked for years with the Ethics & Compliance Initiative (ECI) to regularly survey the companies' employees about their perceptions of E&C programs and ethical culture.

- **Identify, through data and investigations, how the organizational culture contributes to misconduct.** This identification can be achieved by requiring companies to use employee surveys as critical inputs into a root cause analysis of problems that arise in the organization. For example, if employees indicate that they are uncomfortable reporting problems to management, the company should determine why the culture engenders such fear and how internal systems can be reformed to promote a speak-up culture.

  Anonymous surveys remain one of the best ways to gauge the extent to which an organization has a serious problem with fear of retaliation for reporting, for example. The DII provides its member organizations with information about their own companies as well as benchmarking data from organizations within their industries.

- **Design interventions to improve conduct and culture.** Once baseline measures are in hand, firms should be encouraged to design interventions (for example, new ways to integrate ethics goals into performance evaluations or a new policy on sales goals and compensation) and monitor how the company's culture changes over time. This is a way to determine whether targeted interventions are working and to develop a process of continual learning and experimentation. The baseline culture data can thus be used to understand the long-term impact of various internal or external initiatives at the firm.

  There is little reason to conduct extensive surveys unless the organization is open to using the revealed information to attempt to make change. In some cases, concerns about employees' reluctance to speak up, for example, have motivated organizations to create new programs based on Mary Gentile's *Giving Voice to Values* approach.[A] Subsequent surveys can help companies to assess whether they are moving the needle on this issue.

A. Gentile, M. C. (2010). *Giving voice to values: How to speak your mind when you know what's right.* New Haven, CT: Yale University Press.

interviews and focus groups, which can provide a richer sense of what it means to employees to live and work within a particular culture. If regulators, policymakers, and companies are willing to collaborate with academics to develop and validate a suite of methods for assessing ethical culture, we can together achieve the goals of the original FSGO and the vision laid out more recently by William Dudley: a business culture in which "how we do things around here" means measuring ethical culture and then trying to improve it.

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endnotes

A. The Ethical Systems Culture Measurement Working Group members are Linda Treviño (Chair), Michael Brown, Jonathan Haidt, David Mayer, Marshall Schminke, Sean Stevens, Ann Tenbrunsel, Jeffrey Thomas, and Siyu Yu. Find more information about Ethical Systems at http://ethicalsystems.org.

B. To assess the ethical climate, including ethical efficacy and collective empathy, Arnaud and Schminke had respondents indicate their degree of agreement with each item of a 20-item instrument. The instrument included 10 items on the overall ethical climate (both self-interested and other interested), such as "People around here protect their own interest above other considerations." It included three items assessing ethical efficacy, such as "When necessary, people in my department take charge and do what is morally right," and seven items assessing collective empathy (also known as *collective moral emotion*), using statements such as "For the most part, when people around here see that someone is treated unfairly, they feel pity for that person."

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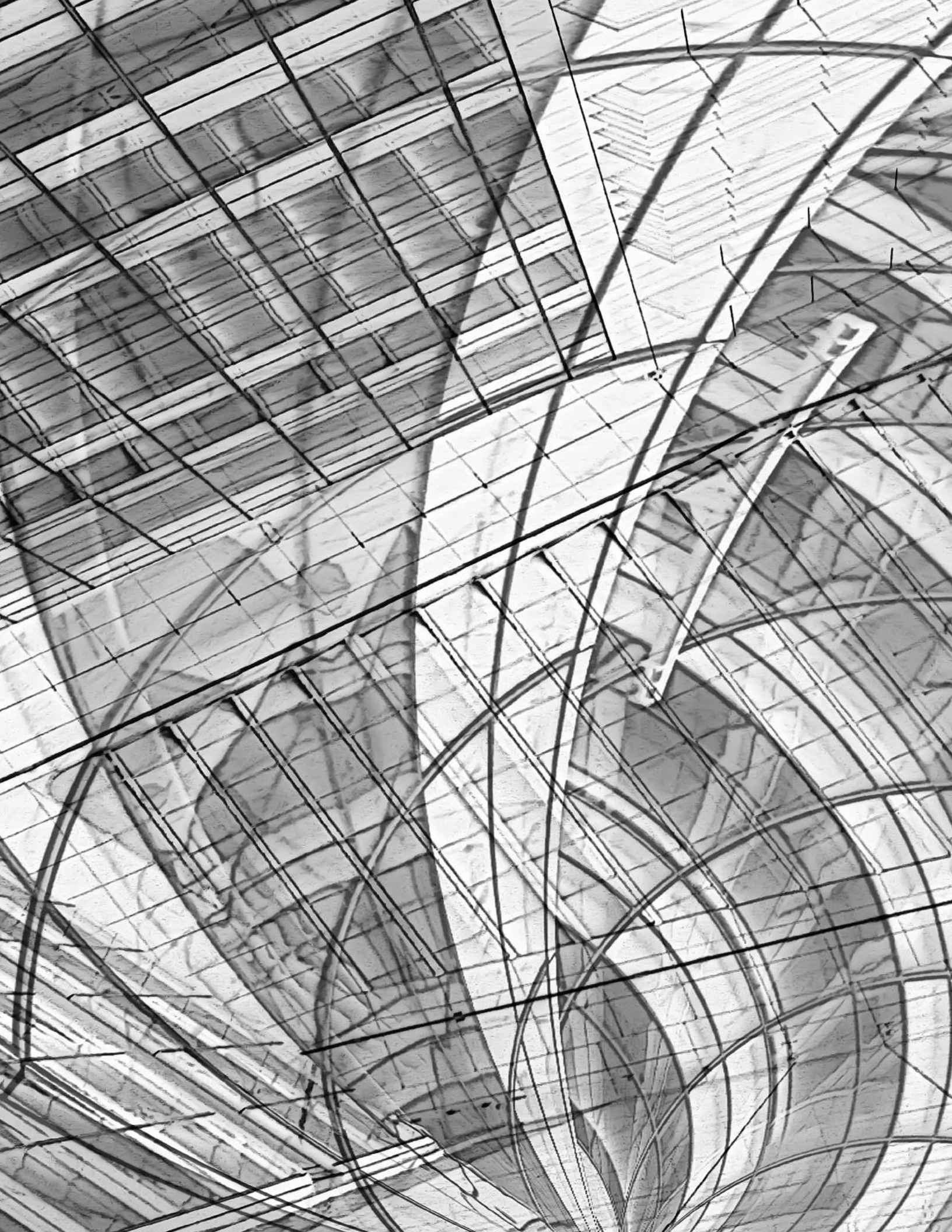
Treating ethics as a design problem

Nicholas Epley & David Tannenbaum

abstract

Creating policies that encourage ethical behavior requires an accurate understanding of what drives such behavior. We first describe three common myths about the psychological causes of ethical behavior that can lead policymakers to overlook constructive interventions. These myths suggest that ethical behavior stems from a person's beliefs; changing behavior therefore requires changing beliefs. Behavioral science, however, indicates that the immediate context (such as an organization's norms and accepted procedures) exerts a surprisingly powerful influence on behavior. To be effective, policies must treat ethics as a design problem; that is, policymakers should create contexts that promote ethical actions. We then discuss three psychological processes that affect ethical activity—attention, construal, and motivation—and describe how understanding them can help policymakers in the public and private sectors design environments that promote ethical behavior.

Core Findings

What is the issue?
Policymakers commonly believe that they must first change people's beliefs in order to encourage them to adopt ethical behavior. Beyond trying to change beliefs, policymakers should also treat ethics as an environmental problem and design solutions that leverage three key psychological processes: *attention, construal,* and *motivation*.

How can you act?
Selected recommendations include:
1) Designing compensation strategies with prosocial goals in mind, such as tying an individual team member's bonus to group performance
2) Counteracting cognitive limitations by engaging *cognitive repair* practices such as reminders, checklists, and visible statements

Who should take the lead?
Leaders and policymakers in organizational design and human resources, behavioral science researchers, organizational psychologists

Effective policy design involves shaping human behavior. In the public sector, policymakers try to encourage some behaviors and discourage others using tools such as taxes, subsidies, mandates, bans, and information campaigns. In the private sector, policymakers try to shape behavior with tools such as hiring, firing, compensation, and operations. Policymaking therefore involves psychology—specifically, policymakers' beliefs about which levers are most effective for changing behavior. Well-intended policies can be ineffective when based on erroneous beliefs about human behavior.

Examples of failed policies based on flawed assumptions are commonplace. In 2009, for instance, the Transportation Security Administration trained more than 3,000 employees to read subtle verbal and nonverbal cues, assuming that lies would "leak out" in brief interactions. In fact, psychologists find very few reliable cues to detecting deception during ongoing interactions, and this TSA program produced a 99% false alarm rate when evaluated by the Government Accountability Office.[1] And in 2001, the U.S. government distributed $38 billion in tax rebates as part of an economic stimulus plan, based on the belief that people would spend more money when they had more to spend.[2,3] In fact, consumer spending is guided by a host of subjective evaluations about the source and meaning of money. In this case, people overwhelming saved these rebates, creating little or no short-term stimulus,[3] possibly because people interpreted the rebates as returned income rather than a windfall.[4]

Unfortunately, when it comes to considering ethical behavior, policymakers routinely hold imperfect assumptions. Common intuition presumes that people's deeply held moral beliefs and principles guide their behavior, whereas behavioral science indicates that ethical behavior also stems from momentary thoughts, flexible interpretations, and the surrounding social context. Common intuition treats the challenge of influencing ethical behavior as a problem of altering beliefs, whereas behavioral science indicates that it should also be treated as a design problem.

In this article, we describe three common myths about morality that can lead policymakers to design ineffective interventions for enhancing ethical behavior. We then discuss three basic psychological processes that policymakers in the public and private sectors can leverage when designing behavioral interventions (see Table 1). Understanding these processes can help policymakers create environments that encourage ethical behavior.

Of course, the very definition of *ethical behavior* can lead to disagreements and impasses before anyone even gets to a discussion about improving ethics. Here, we use the term to refer to actions that affect others' well-being. Ethical behavior contains some degree of prosociality, such as treating others with fairness, respect, care, or concern for their welfare. In contrast, unethical behavior contains some degree of antisociality, including treating others unfairly, disrespectfully, or in a harmful way. The inherent complexity of social behavior—which involves multiple people or groups in diverse contexts—is largely why the causes of ethical behavior can be so easily misunderstood in everyday life.

Three Myths About Morality

Common sense is based on everyday observation and guided by simplifying heuristics. These heuristics generally yield some degree of accuracy in judgment but are also prone to systematic mistakes. Comparing widely accepted common sense with the empirical record allows behavioral scientists to identify systematic errors and propose interventions for countering them.

Myth 1: Ethics Are a Property of People

All human behavior is produced by an enormously complex string of causes, but common sense often focuses on a single source: the person engaging in the activity.[5] This narrow focus can lead to a simplified belief that unethical behavior is caused by unethical people with unethical personalities—rogue traders, charlatans, or psychopaths—rather than by the broader context in which that behavior occurs.

Table 1. Myths about morality

Belief in the myths below can diminish a policymaker's ability to maximize ethical behavior.

Myth	Policy implication
Ethics are a property of people Unethical behavior is largely due to unethical individuals rather than the broader context in which behavior operates.	Can lead policymakers to overestimate the stability of ethical behavior and endorse policies to identify, detain, and deter unethical individuals (for example, "rogue traders"). Such policies are unlikely to succeed whenever unethical behavior is systemic in nature (encouraged by a "rogue" culture or industry).
Intentions guide ethical actions Good intentions lead to ethical acts, and unethical intentions lead to unethical acts. Consequently, one should infer that unethical behavior stems from unethical intentions.	Can encourage policymakers to view safeguards as unnecessary for people with good intentions, impeding implementation of sensible policies to curb unethical behavior. At times, good intentions can result in unethical behavior.
Ethical reasoning drives ethical behavior Ethical behavior is guided by deliberative reasoning based on ethical principles.	Can induce policymakers to overestimate the effectiveness of ethics training programs (standard in many organizations) and underestimate the importance of contextual changes for altering behavior.

Perhaps the best-known example of this error comes from Stanley Milgram's experiments on obedience to authority.[6] Participants in Milgram's experiments were instructed to administer increasingly severe electric shocks to another person, even to the point where participants thought the shocks might have been lethal (in fact, the "victim" was an actor who never received any shocks). When Milgram described this procedure to three different samples of people, not one person predicted that they would personally deliver the most intense electric shock possible to another person. In actuality, 65% of participants did. What makes Milgram's research so interesting is the mistaken intuition that only psychopaths or very deviant personalities would be capable of such obvious cruelty.

This myth implies that people tend to overestimate the stability of unethical behavior. Consistent with this possibility, survey respondents in one study dramatically overestimated recidivism rates—the likelihood that a past criminal would reoffend—both over time and across different crimes.[7] The likelihood of reoffending actually drops dramatically over time, but participants believed that it stays relatively constant. Participants' responses followed a rule of "once a criminal, always a criminal," a view consistent with the myth that ethical behavior is a stable property of individuals.[8] Likewise, employers who require credit checks as a precondition for employment do so because they think past defaults predict a broader tendency to engage in a wide variety of unethical behaviors (such as workplace deviance). In fact, empirical investigations have found that credit scores are, at best, weakly associated with performance appraisal ratings or termination decisions.[9,10]

Although largely unrecognized by the public, the lack of correspondence between past and future ethical behavior is not a new insight for behavioral science. A classic study in which psychologists evaluated thousands of high school and middle school students in the 1920s found very little consistency in honesty from one situation to another.[11] People tend to believe that ethical behavior reflects a consistent moral character, but actual ethical behavior varies substantially across contexts.

A focus on unethical individuals leads to policies that attempt to identify, detain, and deter those individuals (for example, "rogue traders"). This approach is unlikely to succeed whenever unethical behavior is systemic in nature (for example, it occurs within a "rogue culture" or "rogue industry"). Improving ethics often requires altering the type of situation a person is in, not simply altering the type of people in a given situation.

"Improving ethics often requires altering the type of situation a person is in, not simply altering the type of people in a given situation"

Myth 2: Intentions Guide Ethical Actions

A more focused version of Myth 1 is the common-sense assumption that actions are caused by corresponding intentions: bad acts stem from bad intentions, and good acts follow from good intentions.[12] Although intentions are correlated with a person's actions, the relationship is far more complicated than intuitions suggest.

There are at least two consequences of oversimplifying the relationship between actions and intentions. First, people tend to overestimate the power of their own good intentions and, as a result, overestimate their propensity for engaging in ethical behavior.[13,14] People predict that they will bravely confront instances of racism, sexism, and physical abuse more often than is realistic, as such predictions fall short of the bravery people in the midst of those situations actually display.[15–17] In one experiment, for instance, 68% of women asked to anticipate how they would respond to inappropriate job interview questions posed by a male interviewer (such as "Do you have a boyfriend?") said they would refuse to answer the questions, yet none of the women did so when actually placed in that situation.[17]

Second, good intentions can lead to unintended unethical consequences simply because ancillary outcomes are overlooked.[18] People who help a friend get a job with their employer, for example, may fail to realize that this act of ingroup favoritism also harms those outside their social network.[19] Harm can therefore be done while intending to help.

Overestimating the power of good intentions can impede sensible policies to curb unethical behavior by causing people to dismiss institution safeguards as unnecessary. For instance, surveys of doctors and financial planners find that both groups think that conflict-of-interest policies are necessary for other professions but not for their own group.[20] When people think that they and their colleagues have good intentions and that people in their profession can be trusted to do what is right, they may unwisely view ethical safeguards as onerous and useless.

Myth 3: Ethical Reasoning Drives Ethical Behavior

Conventional wisdom suggests that ethical reasoning causes ethical action, but behavioral scientists routinely find that ethical reasoning also follows from behavior—serving to justify, rationalize, or explain behavior after it has occurred.[21,22] People generate sensible explanations for choices they did not make,[23] invent post hoc arguments to justify prior choices,[24] and evaluate evidence they want to believe using a lower evidentiary standard than they apply to evidence they do not want to believe.[25]

To the extent that policymakers exaggerate the causal power of ethical reasoning, they will also likely overestimate the power of ethics training programs (standard in many organizations) to change behavior. Indeed, a survey of over 10,000 representative employees from six large American companies found that the success of ethics or compliance programs was driven more by social norms within the organization than by the content of these training programs.[26]

Collectively, these three myths matter because they exaggerate the degree to which ethical behavior is driven by beliefs and can therefore be improved by instilling the right values and intentions in people. Each of the myths contains some element of truth—unethical values and intentions can at times guide unethical behaviors, and reinforcing ethical principles has some value. But these myths also oversimplify reality in a way that can lead policymakers to overlook other forces in a person's immediate context that shape ethical behavior. Policymakers who realize that encouraging ethics is not just a belief

Table 2. Ethical design principles

Ask the following questions when devising systems intended to foster ethical behavior.

Question	Policy implication
Attention: Are ethics top of mind? People have limited attention and are guided by information that is accessible, or *top of mind,* at the time a decision is made. People sometimes act unethically simply because they fail to consider the ethical implications of their behavior.	Effective systems induce people to think about ethics routinely. Examples of triggers include ethics checklists filled out before making a decision, messages that make ethical principles salient in the environment, or heuristics that can become repeated mantras for ethical action.
Construal: Are people asking, "Is it right"? How people behave is influenced by how they interpret—or construe—their environment. Altering the construal of an event can dramatically affect behavior by redefining what constitutes appropriate conduct.	Ethical systems encourage ethical construals. Inducing employees to ask themselves "Is it right?" rather than "Is it legal?" should lead to an increase increase in prosocial behavior.
Motivation: Are you using prosocial goals? Social incentives, such as a desire to help or connect with others, can be used to motivate behaviors that naturally align with ethical practices.	Systems that foster ethical behavior create opportunities for people to do good for others and highlight the good that others are doing to establish more ethical norms. Instead of focusing on ethical failures, organizations should call out *ethical beacons*—exemplary ethical behaviors—for others to emulate.

problem but also a design problem can increase ethical behavior by changing the contexts in which people live and work. Here's how.

Ethical Design for a Human Mind

For systems to be effective, they must be tailored to fit the properties of their users. Policies that encourage ethical behavior should therefore be designed around three basic psychological processes that guide human behavior: attention, construal, and motivation (see Table 2). That is, policies should be designed to help people keep ethical principles top of mind (attention), encourage people to interpret and under-stand the ethical ramifications of their behavior (construal), and provide opportunities and incentives to pursue ethical goals (motivation).

Attention: Make Ethics Top of Mind

Attention operates like a spotlight rather than a floodlight, focusing on a small slice of all possible relevant information. Because atten-tion is limited, decisions are guided by whatever information is most accessible at the time the decision is made. An otherwise ethical person might behave unethically simply by failing to consider the ethical implications of his or her actions.

The limited nature of attention implies that designing environments to keep ethics top of mind should increase the likelihood of ethical behavior. In one field experiment with a U.S. automobile insurance company, customers signed an honor code either before or after completing a policy-review form that asked them to report their current odometer mileage.[27] Drivers reported their odometer reading more honestly when they signed the honor code before reporting their mileage. This kind of simple design change keeps honesty top of mind and can have a meaningful impact on a person's actions.[28]

An effective ethical system triggers people to think about ethics routinely. Such systems can include ethical checklists that are consulted before making a decision,[29] messaging that makes ethical principles salient in the environ-ment,[30] or heuristics within an organization that can become repeated mantras for ethical action.[31] Warren Buffett, for instance, asks his employees to take the "front page test" before making any important decision: "I want employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper—to be read by their spouses, children and friends—with the reporting done by an

informed and critical reporter."[32] The key is to make sure that ethics are brought to mind by either well-learned heuristics or environmental triggers at the very time that people are likely to be contemplating an ethical decision.

Effective ethical systems can be contrasted with environments that obscure ethical consider-ations or chronically highlight goals that push ethics out of mind. Enron, for instance, famously had its stock price prominently displayed throughout the company, including in its eleva-tors, whereas its mission statement, which highlighted ethical principles, was unmemo-rable, boilerplate, and prominently displayed nowhere in the company.[33]

Construal: Encourage People to Ask, "Is It Right?"
If you have ever watched a sporting event with a fan of the opposing team, you know that two people can witness the same event yet see very different things. How people behave is a func-tion of how they interpret—or construe—their environment.

To understand the power of construal, consider a simple experiment in which two partici-pants play a simple economic game.[34] In this game, both players simultaneously choose to cooperate or defect. Participants can earn a moderate amount of money if both opt to cooperate, but each player has the opportunity to earn more by defecting; however, joint defec-tion leaves both players worse off than if both had cooperated. This task models a common tension in real-world exchanges between coop-eration and exploitation. Yet simply changing the name of the game while keeping all other aspects identical (including monetary payoffs) had a dramatic impact on cooperation rates. Roughly 30% of participants cooperated when it was called the Wall Street Game, whereas 70% cooperated when it was called the Commu-nity Game. Although a name may seem like a trivial detail, altering the construal of an event can dramatically affect behavior by redefining appropriate or expected conduct for oneself and others.

At times, organizations seem to exploit the power of construal to deter ethical behavior. For instance, in the midst of serious vehicle safety concerns at General Motors, company representatives actively encouraged employees to avoid ethical interpretations of the safety issues when communicating with customers. In one illustrative case, materials from a 2008 training seminar instructed employees on euphemisms to replace ethically relevant terms when conversing with customers.[35] Instead of using the word *safety*, employees were to say, "has potential safety implications." Instead of terms with clear moral implications, employees were to use technical terminology, saying that a product was "above specifications" or "below specifications" rather than "safe" or "unsafe." Such instructions make it easier for employees to construe their behavior in ways that permit unethical behavior.

Failing to emphasize ethical construals is also where well-intentioned programs meant to ensure compliance with laws and regulations can go wrong in organizations. These programs usually focus on whether an action is legal or illegal, not whether it is ethically right. Encour-aging employees to ask themselves "Is it legal?" rather than "Is it right?" could inadvertently promote unethical behavior. Andy Fastow, former chief financial officer of Enron, high-lighted this disconnect when he looked back on his own acts of accounting fraud: "I knew it was wrong. . . . But I didn't think it was illegal. I thought: That's how the game is played. You have a complex set of rules, and the objec-tive is to use the rules to your advantage."[36] As he remarked in a presentation, "The ques-tion I should have asked is not what is the rule, but what is the principle."[37] To foster ethical behavior, systems need to encourage ethical construals.

Motivation: Use Prosocial Goals
A truism of human behavior is that people do what they are incentivized to do. The challenge is to understand the specific goals that people hold at any given time and use the right kinds of incentives to shape behavior.

40
Percentage point increase in people who cooperated in a game when its name was changed from "Wall Street Game" to "Community Game"

The lost market value to a firm fined for unethical behavior relative to the fine is **$3.08 for every $1**

13%
Drop in mine injuries after requiring firms to report safety records in financial statements

"sales employees performed better after receiving a bonus to be spent on another member of their team than they did after receiving a bonus meant to be spent on themselves"

The most common approach to motivating behavior, including ethical behavior, is to provide material incentives. Although financial rewards and punishments can be productive under the right circumstances, an approach based on extrinsic incentives alone presumes that people lack meaningful prosocial motivation to begin with: to be encouraged to behave ethically, they must be compensated in some way beyond having the satisfaction of doing the right thing.

This presumption is often unwarranted. Prosocial motives, such as a desire to help or connect with others, can be used to encourage behaviors that naturally align with ethical practices. In one experiment, fundraisers at a university alumni call center worked significantly harder and raised significantly more money after having a short question-and-answer session with a beneficiary.[38] In another experiment, sales employees performed better after receiving a bonus to be spent on another member of their team than they did after receiving a bonus meant to be spent on themselves.[39] Finally, a field experiment asking one group of managers to perform random acts of kindness for employees over a 1-month period found significant reductions in depression rates among these managers 4 months after the intervention ended.[40]

The importance of social motivation can also be seen in the surprising power of social norms to shape behavior. Behavioral science repeatedly demonstrates that people mostly conform to what others around them are doing.[41] This insight can be used to motivate people for good, to the extent that ethical norms are highlighted.[42] For example, in an effort to increase tax compliance, the UK Behavioral Insights Team (at the time, a division of the British government devoted to applying behavioral science to social services) sent delinquent taxpayers letters with different messages encouraging them to pay their taxes. The most effective letter was the one informing individuals that "Nine out of ten people in the UK pay their tax on time. You are currently in the very small minority of people who have not paid us yet."[43]

The power of social norms in shaping ethical behavior has an important implication. Discussions about ethics often focus on unethical behavior—on crimes and other unethical things people are doing. Such discussions are like black holes, attracting people to them and potentially encouraging similar behavior. What is more constructive is to focus on ethical beacons—examples of admirable behavior among individuals, groups, or companies. Public service announcements, company newsletters, and other sources of information intended to encourage ethical behavior should call out exemplary ethical behavior that others can strive to emulate. To foster ethical behavior, then, policymakers should create opportunities for people to do good for others and should establish ethical norms by highlighting the good that others are already doing.

An Ethical Organization, by Design

An ethical system is an environment designed to keep ethics top of mind, make ethics central to the framing of policies and initiatives, and increase prosocial motivation. Design details must be guided by an organization's mission and by a well-crafted mission statement that features a small number of key principles. Practices, in turn, should be aligned with the stated principles as part of an organization's strategy for success. These principles must go beyond maximizing short-term shareholder value to focus, instead, on enabling long-term sustainability of the entity and its ethical actions.

Of course, policy changes inspired by an organization's core values will not produce a perfectly ethical organization, just as a well-designed

bridge based on fundamental engineering principles cannot eliminate all safety risks. Ethical systems are intended to create the kind of environment that makes ethical behavior easier and therefore more frequent. At a practical level, policymakers can incorporate ethical design principles into the major drivers of behavior within their organizations: procedures for hiring and compensating employees, maintaining the entity's reputation, and carrying out day-to-day operations.

Hiring

Interviews are typically meant to identify the best person for a job, although their ability to do so is notoriously limited.[44,45] Interviews and onboarding procedures can, however, also serve as an acculturation tool that communicates an organization's ethical values to prospective employees and highlights the importance of those values to current employees.

Interviews can be designed around ethics by asking questions that make an organization's commitment to ethics clear to prospective employees. Johnson & Johnson, for instance, has a number of questions relating to its well-known credo (which pledges to prioritize the needs of the people it serves) that are put to potential employees during the interview process. For example, when discussing the company's commitment to customers, interviewers may ask potential employees to describe a time they identified and addressed an unmet customer need. Interviews designed around an organization's principles, including its ethical principles, can bring ethics to everyone's attention, encourage construal of behavior in terms of ethical principles, and signal that the organization considers ethical behavior to be an important source of motivation for both current and new employees. Even though job interviews may be poor tools for identifying and selecting the right employees, they can be used to communicate a company's values at a critical point in an employee's acculturation process. An organization that has its representatives ask about ethics during an interview signals its concern for ethics on the job.

Compensation

Organizations can design financial reward systems to encourage ethical behavior in two different ways. First, organizations can reward ethical behavior directly, such as through scorecards that translate ethical values into measurable actions. Southwest Airlines, for instance, designs its executive compensation scorecard around the company's four primary values. To reward executives for upholding the value "Every Employee Matters," the airline compensates them for low voluntary turnover. By linking compensation to keeping employees at the company, Southwest tries to create an incentive for bosses to contribute to a valuable prosocial outcome.

Second, organizations can provide opportunities for employees to satisfy preexisting prosocial motivations. People tend to feel good when they are also doing good for others,[46,47] and they also do good to maintain a positive reputation in the eyes of others.[48] Organizations can provide opportunities to satisfy both motives by allowing employees to reward one another, by facilitating random acts of kindness, or by offering employees time to engage in prosocially rewarding work that is aligned with the organization's values. In one field experiment, Virgin Atlantic rewarded its pilots for achieving a fuel-efficiency goal by giving a relatively small amount of money to the pilot's chosen charity.[49] This prosocial incentive increased pilots' reported job satisfaction by 6.5% compared with the pilots in the control condition, an increase equivalent to the observed difference in job satisfaction between those who are in poor health and those who are in good health. The good news for organizations and policymakers is that these prosocial incentives usually cost little or nothing and yet can have meaningful effects on well-being and behavior.

Reputation Management

People, including those who run organizations, care about their reputation in the eyes of others, because that reputation affects how they are treated. In one economic analysis, companies fined by the U.S. Securities and Exchange Commission for unethical behavior lost $3.08 in market share for every $1 they were fined,

with these larger losses coming from the reputational consequences of being identified as a lawbreaker.[50] Policymakers who are designing ethical systems can capitalize on the reputational concerns of companies and employees to foster ethical behavior. For instance, they can ensure that an organization's reputation is measured and that the results are public and transparent.

At the individual level, many organizations already conduct annual climate or culture surveys that can be used to measure perceptions of ethical behavior within the organization. Behavioral science suggests that reporting these ethical evaluations within the organization or using them as part of the performance review process is likely to increase ethical behavior among employees, so long as making unfounded accusations can be minimized (such as when an independent agency monitors violations).

The public sector can also implement policies that enhance corporate ethics. Policies that mandate public disclosure of companies' practices often directly improve ethical behavior across an entire industry. For example, the Ministry of Environment, Lands and Parks of British Columbia, Canada, publishes a list of firms that have failed to comply with existing regulations. An empirical analysis found that publishing this list of polluters had a larger impact on subsequent emissions levels and compliance status than did fines and penalties associated with noncompliance.[51,52]

Similarly, publishing workplace safety records, thus making them more noticeable, can produce significant decreases in workplace injuries. One analysis found that a new requirement to report mine-safety records in financial statements produced an 11% drop in mine-related citations and a 13% drop in injuries.[53] Reputation systems have also been effective at increasing hygienic standards at restaurants[54] and adherence to clean drinking water standards by utility companies:[55] In Los Angeles, hygiene grading cards have caused restaurants to make hygiene improvements, and, in Massachusetts, requiring community water suppliers to inform consumers

"publishing this list of polluters had a larger impact on subsequent emissions levels and compliance status than did fines and penalties associated with noncompliance"

of violations of drinking-water regulations led to a reduction in violations. Policymakers typically focus on financial or legal incentives to shape behavior, but clearly reputational concerns can serve as a third powerful class of incentives.

Operations

Designed properly, daily operations can also offer opportunities to reinforce ethical values by keeping ethical considerations top of mind and making it easier to behave ethically. These goals can be facilitated by using organizational practices that compensate for cognitive limitations (that is, *cognitive repairs*), such as reminders, checklists, and visible statements relating to personal responsibility.[56–59]

These cognitive repairs must be timely to be effective, bringing ethical considerations to mind at the time a person is making a decision with ethical implications. One field experiment highlights the importance of timeliness. In this study, hotel valets either reminded drivers to wear their seat belt when the valet ticket was turned in (about a 6-minute delay), reminded drivers to wear their seat belt as they entered the car, or provided no reminder at all.[60] Only the immediate reminders had a noticeable impact on behavior. Drivers who received the reminder 6 minutes before starting their car were no more likely to fasten their seat belts than were drivers who received no reminder at all.

Cognitive repairs must also make the ethical consequences of one's actions obvious. In one series of experiments, researchers found that

physicians were more likely to follow a standard handwashing protocol when signs at the handwashing stations reminded them about the consequences for patient safety ("Hand hygiene prevents patients from catching diseases"), compared with signs that provided instructions for handwashing or emphasized personal safety ("Hand hygiene prevents you from catching diseases").[61] The goal of these design solutions is to create an environment where ethical considerations are such a routine part of day-to-day interactions that they become automatic habits ingrained in the organization's cultural practices.

Conclusion

In writing about the 2007–2008 financial crisis, *New Yorker* reporter John Cassidy noted that he

> angered some people by suggesting that . . . [the] Wall Street C.E.O.s involved in the run-up to the financial crisis were "neither sociopaths nor idiots nor felons. For the most part, they are bright, industrious, not particularly imaginative Americans who worked their way up, cultivated the right people, performed a bit better than their

colleagues, and found themselves occupying a corner office during one of the great credit booms of all time."[62]

That this statement angered so many people illustrates how conventional wisdom often treats ethics as a belief problem: that unethical behavior is caused by individuals with unethical values or intentions.

However, the empirical evidence paints a more complicated picture: Unethical behavior is also caused by momentary thoughts, interpretations, and social context. As a result, a more accurate and constructive approach for policymakers is to treat ethical behavior as a design problem. Designing environments that keep ethics top of mind, encourage ethical construals, and strengthen prosocial motivations is essential for helping to keep otherwise good people from doing bad things.

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Using behavioral ethics to curb corruption

Yuval Feldman

abstract

Even people who think of themselves as being ethical ("good people") may engage in corrupt actions. In fact, the situations that seem least problematic can sometimes cause good people to behave immorally. Behavioral ethics research has demonstrated that various unconscious and self-deceptive mental processes promote such behavior in those individuals. To reduce the frequency of misbehavior by normally well-intentioned individuals, policymakers need to be aware that classic approaches to limiting corruption sometimes increase the likelihood that good people will engage in misconduct. Regulators also need to expand their toolbox beyond formal ethical codes and financial incentives by adding preventive interventions that are based on behavioral ethics research.

The neoclassical, rational economic view of organizational corruption lays the blame for such wrongdoing on "bad people"—self-centered individuals who consciously promote their own interests regardless of the costs to others. This view also assumes that people weigh the pros and cons of their situation and make a fully rational choice about how to behave. Further, it presumes that control of corruption depends on having formal codes of behavior; imposing high fines for misbehavior; and providing financial incentives for behaving in ways that benefit others, such as tying rewards to a group's success rather than to the actions of an individual. (See note A.)

Yet the standard approaches may fail with an important part of the population: people who see themselves as being more ethical than they really are. Behavioral ethics (BE) research demonstrates that such "good people" (as I will refer to them throughout this article) promote their own interests at the expense of others in certain situations—notably in ones that allow them to have only limited awareness of the ethical ramifications of their behavior or ones that at least enable them to deceive themselves into thinking they are behaving ethically. Ironically, at times, classical measures meant to curb corruption actually promote it.[1–14] (The ideas developed in this article are elaborated in my forthcoming book, *The Law of Good People: Challenging States' Ability to Regulate Human Behavior*). (See note B.)

Clearly, the degree to which good people act badly depends on the situation, their level of awareness of the wrongdoing, their ability to overcome unconscious processes, and their ability to find justification for noncompliance.[15,16] BE research indicates that the regulatory toolbox for curbing corruption in business needs to be expanded to address not only bad people but also bad situations that promote corrupt actions by good people. As more data are collected on the contextual factors responsible for misconduct, on the ways that situational design can change people's ethical awareness, and on the efficacy of new types of interventions, this toolbox will grow still more.

Why Good People Behave Unethically

Several psychological processes help to explain why people who usually act morally may sometimes act in their own self-interest instead of fulfilling their professional duties. As research into corruption and conflicts of interest has shown, some of these processes are unconscious. At times, for instance, corporate pressure to achieve financial goals lowers the barrier to ethical misconduct. In addition, when people do not have time to carefully consider their behavior, they rely on fast, automatic thought processes that can enable them to act unethically without reflecting on the implications of their actions.[2,17,18] (See note C.)

Furthermore, people have ethical blind spots that can prevent them from recognizing they are acting corruptly:[6] They may not realize they are doing what they want to do rather than what they should do, that they are being influenced by unconscious biases, or that they have a conflict of interest. In a corporate context, where the focus is on enhancing a company's profitability, a financial advisor might, for instance, blindly follow the firm's investment guidelines rather than fully weighing the needs of a client (to whom the advisor ethically owes loyalty).

Other psychological processes that come into play allow good people to maintain their moral image of themselves.[12] One is *motivated reasoning*, the tendency to process information in ways that fit one's self-centered desires and preexisting beliefs. Another is the tendency of people to deceive themselves, before as well as after the fact, into thinking that unethical actions are actually ethical or at least justifiable.[18] In the face of these psychological mechanisms, it can be very difficult for people to be clear on what their own motivations might actually be.[19]

The BE research has also revealed a fascinating nuance: In situations where it is easier for people to view themselves as being good, they are more likely to engage in corrupt behaviors. For example, subtle or implied gains may be more of a prod to corruption than obvious financial gains would be. Along those lines, accepting

Core Findings

What is the issue?
People overestimate how ethical they truly are. Because of various psychological processes like *motivated reasoning,* individuals are more likely to engage in corrupt behaviors when situations allow them to view themselves as being "good." Traditional interventions based on neoclassical rational assumptions may therefore inadvertently increase corruption and miss an important dimension to ethical behavior.

How can you act?
Selected recommendations include:
1) Further controlled research into corruption and nonmonetary influences like media coverage, paid speaking engagements, and conference invitations
2) Increasing the likelihood of detecting unethical behavior rather than increasing penalties for misconduct or corruption

Who should take the lead?
Regulators and industry leaders, organizational psychologists, behavioral science researchers.

gifts, which could be seen as part of a social exchange, is far easier for good people to justify than taking cash payments, which are more problematic legally and harder to justify. In that sense, the focus of law on "smoking guns" and clear quid pro quo relations completely misses the reality that it is not just bad people who behave corruptly. Focusing on finding indisputable evidence of corruption (which is needed for successful prosecution) will lead investigators to overlook all of the subtle conflicts that might affect a far greater portion of the population: the good people, for whom the subtlety of the conflict might be more, rather than less, problematic.

To understand how seeing oneself as moral can increase the likelihood of being corrupted by subtle incentives, consider what happens when a given behavior is only partly wrong. For example, public officials are not necessarily misbehaving when they vote for a given regulation, promote a certain employee, or allow a particular commercial initiative to go forward. The only factor that would make such actions corrupt is an improper motive. Promoting an employee is not problematic in itself, especially if the official doing the promoting believes the employee being given the new role is worthy. The action becomes complicated if this employee's uncle donated money to the official's campaign. In such cases, the official might have mixed motives, acting for both legitimate (the good employee deserves the job) and illegitimate (quid pro quo) reasons, and various self-serving psychological mechanisms could tip the balance toward illegitimate behavior. One such mechanism is *objectivity bias*, which causes people to downplay the effect of self-interest on their decisions and attribute their choices to legitimate motivations.[20–22] In this case, objectivity bias might cause the official to give the employee a more positive evaluation than was deserved without realizing the true source of the positive review.

In another example, a politician may convince himself that the only reason he is voting for a certain bill is because of the persuasive argument of a lobbyist rather than because of the prospect of future financial support by the

interest group represented by the lobbyist. In that case, he will not be influenced by an envelope filled with cash but might be swayed by a softer influence attempt that allows him to remain convinced that he is acting objectively, not selfishly.

My colleague Eliran Halali and I discovered the force of softer incentives in a 2017 study in which participants who worked for a survey firm were themselves asked to fill out a survey reviewing a specific research institution that they hoped would later hire them to participate in additional surveys.[23] The study replicated the revolving-door effect, in which people employed in the public sector are eyeing their next job in the private sector while still working in the public sector.

Participants were asked to answer two types of questions: one type focused on the importance of the topics studied by the institution, and the other type asked the participants to evaluate the researchers at the facility. We found that participants who were told that the research institution might hire them for future work were more likely to write favorable reviews. Thus, the prospect of possible paid work did lead to an ethical bias.[23]

However, one would have expected the survey firm respondents to provide reviews that were more positive about the researchers than the topics studied, as presumably it is the researchers who are in charge of hiring decisions. Yet the participants did not give their most positive evaluations to the researchers. It seems that being blatant in the scoring might have made the participants more likely to feel that they were being unethical; they were willing to give biased reviews only to the extent that they retained an ethical self-image and did not cross some self-imposed imaginary red line. People have an internal gauge of roughly how far they will go to enhance their self-interest.[23]

Corrupting Situations
Various characteristics of work life can compound people's ability to rationalize their bad behavior. BE research indicates that

Motivated Reasoning
The tendency to process information in ways that fit one's self-centered desires and preexisting beliefs

Objectivity Bias
Downplaying the effect of self-interest on decisions and attributing choices to objective, professional, or legitimate motivations

Elastic Justification
Taking advantage of legal or situational ambiguity to rationalize self-interested behavior

"vague policies can cause employees to interpret their legal and ethical obligations loosely"

policymakers should particularly focus on the aspects described next.

Vague Rules & Norms

The view that people always behave rationally holds that vagueness in governmental or company rules deters people from attempting to find loopholes that they can exploit to their advantage.[13] The classical notion that people are averse to ambiguity likewise suggests that vagueness will deter underhanded behavior.[24] BE research demonstrates, however, that lack of specificity sometimes has the opposite effect, inducing people to use ambiguity to their advantage. Indeed, vague policies can cause employees to interpret their legal and ethical obligations loosely, especially when the policies are accompanied by weak ethical norms— that is, when people in an organization do not consistently behave in a moral way.

Maurice E. Schweitzer and Christopher K. Hsee have shown,[25] for example, that when rules are imprecise, people tend to engage in *elastic justification,* taking advantage of ambiguity to rationalize self-interested behavior.[26–31] Similarly, in experiments I conducted with Amos Schurr and Doron Teichman, subjects' interpretation of the meaning of the word *reasonable* in a hypothetical contract varied depending on how the interpretation would affect their financial gains or losses.[26] Vague legal standards were used in a self-serving way, especially when subjects had no other guidance on how they should behave.

What is more, the greater the ambiguity of a situation, the more people will feel confident in their own ethicality[32] and the more people's self-interest will take precedence over professional duties.[28,31] Conversely, reducing a person's ability to justify unethical behavior in ambiguous situations is likely to decrease the temptation for

good people to misrepresent the facts.[13] Thus, regulators who wish to curb corruption through legal means should craft rules that are very specific rather than imposing general legal standards (although they should be aware of some inadvertent effects of specificity).[33]

Nonmonetary Conflicts of Interest

Policymakers usually take the rational-choice perspective and assume that financial rewards have the greatest influence on corruption and hence should be subject to the greatest scrutiny. The BE research shows the opposite effect: Nonmonetary rewards are harder to resist, especially by good people, because the motivations behind them are ambiguous and thus open to interpretation. An invitation to give a keynote speech at a conference is far more effective than cash payments at influencing many types of doctors, for instance.

Classic studies on the corrupting power of money focus on politicians influenced by campaign donations[34] and on physicians whose health care decisions are affected by the receipt of drug industry money and perks.[35] In contrast, more recent studies have analyzed situations where a government regulator has no financial ties to a private entity being regulated but does have social ties to the organization or its members, such as sharing a group identity, a professional background, a social class, or an ideological perspective.[36] In that situation, regulators were likely to treat those being regulated more leniently. Thus, even relatively benign-seeming tendencies that regulations tend to ignore—such as giving preference to people having a shared social identity—could be as corrupting as the financial ties that are so heavily regulated in most legal regimes.

In 2014, for instance, investigators in the Netherlands showed that regulators in the financial sector who had previously worked in that sector were less inclined to enforce regulations against employees who shared their background.[36,37] Similarly, in a 2013 look at the regulation of the U.S. financial industry before the 2008 crisis, James Kwak noted that the weak regulation at the time was not strictly a case of regulatory capture, in which regulatory agencies serve

the industry they were meant to police without concern for the public good. Some regulators, he argued, intended to protect the public, but cultural similarities with those being regulated, such as having graduated from the same schools, prevented regulators from doing their job effectively.[38] In such instances, people often convince themselves that their responses to nonmonetary influences are legitimate, mistakenly thinking that because such influences usually go unregulated, they are unlikely to be ethically problematic.

Additional controlled research is needed on the ways that nonmonetary influences cause corruption and on how they can lead people to engage unwittingly in wrongdoing. Despite the growing recognition of the power of such influences—which might include invitations to prestigious conferences, lucrative paid speaking opportunities, or media coverage—regulators still tend to see them as less problematic than direct monetary incentives. The regulators are wrong. They need to worry about nonmonetary rewards' effects on good people at least as much as they do about the effects of financial rewards on "bad people."

Availability of Justifications

As suggested earlier, the underlying assumption of most BE approaches is that individuals want to view themselves as ethical agents. Therefore, people are more prone to unethical behavior when settings allow them to justify their actions as being ethical.[39] People who would abstain from acting out of self-interest in cases where being selfish was clearly unethical may well indulge themselves if they can easily ignore the ethical dimensions of their choices.[27,28] For example, when an organization that donates to a politician holds public views that coincide with the politician's own opinions, the politician can easily ignore the problematic nature of voting in a way that supports the donor organization.

Regulators can apply empirically tested tools to identify the common rationalizations that people use to justify corruption (such as "Everyone does it," "No one would care," or "I am not responsible"). (See note D.) Then they can take preemptive steps, perhaps by training people to recognize common justifications and informing them of the moral and legal irrelevancy of those justifications.

Loyalty to an Organization

Feeling responsible to one's company can undermine the tendency of good people to abstain from actions that can harm the company's customers, suppliers, or others. Employees are more likely to act unethically when the corporation rather than the individual benefits from the behavior and when professional norms favor unethical activity.[40] One study revealing the corrupting influence of the desire to benefit an employer showed, for instance, that when bankers were reminded of being bankers, they became less likely to behave honestly .[41] These findings run contrary to the rational-choice perspective, which holds that people are more likely to behave unethically when they themselves benefit from doing so.

Other aspects of acting on behalf of a corporation also tend to encourage unethical behavior. BE research suggests that altruism can promote corruption: People's misbehavior increases when their actions are intended to help others.[42] BE studies also indicate that in some cases, people will act more unethically when they enjoy only part of a benefit rather than all of it,[43] as happens in corporations, where revenues from misconduct are distributed among shareholders and other members of the organization.

Another characteristic of the corporate context that could increase the likelihood of good people behaving in a corrupt way is the frequent reliance on teamwork. BE research suggests that when a few people work together to execute a task, the collective nature of the endeavor can increase the chances that people will act unethically.[44]

Related findings indicate that people are more likely to engage in serious misconduct when they do it in a gradual rather than an abrupt way[45] or when they harm many unidentified victims rather than a specific individual known to them.[46] Corporations lend themselves to these kinds of situations. In many corporate contexts,

"under certain circumstances, people who work in pairs are more likely to engage in wrongdoing than if they had worked individually"

executives might also sin by omission, failing to intervene to halt the corruption of others.[47,48]

Overall, then, the corporate setting is ideal for nurturing unethical behavior in good people. Employees often do not perceive their actions as putting their own interests in front of others' and do not directly see the effects of their actions on the people—customers and others—who may be harmed. Given that unethical behavior can often benefit the corporation at the expense of the general public, regulators need to keep in mind that this environment is especially conducive to ethical violations by ordinary people.

Classic Enforcement Approaches May Inadvertently Increase Corruption

Behavioral approaches to the regulation of corruption will require new tools. Policymakers should also recognize, however, that some standard tools intended to curb corruption can actually increase it.

Disclosures

Disclosure of conflicts of interest is one of the most commonly used approaches to curbing dishonest behavior. Yet, as research by George Loewenstein and his colleagues has shown, disclosures can have paradoxical effects. For instance, although clients of financial advisors may receive worse advice from someone who has a conflict of interest, those clients may not be less trusting after reading or hearing a disclosure of that conflict of interest.[49] Research by Sunita Sah, who has analyzed the impacts of disclosures, suggests that regulators can increase the protective effects of disclosures by adjusting how the disclosures are presented.

For example, in medicine, it is best to present disclosures to patients as being mandatory rather than voluntary and best to have them delivered by a third person rather than by the doctors themselves.[50]

The Four-Eyes Principle

The *four-eyes principle*—a policy requiring that transactions be approved by two people, not just one—is well established in the corporate and political worlds. Intuitively, involvement of more people in key decisions seems as though it should reduce corruption. However, this approach can sometimes backfire, according to Ori Weisel and Shaul Shalvi, who have shown that under certain circumstances, people who work in pairs are more likely to engage in wrongdoing than if they had worked individually.[51] Their research challenges the current regulatory perspective that the four-eyes principle is an effective tool for curbing corruption.[52]

Further study is needed to understand the mechanisms underlying this surprising effect. Nevertheless, policymakers might decrease the inadvertently corrupting effects of working in dyads by making sure that each member of the pair has a different role to play and thus will not benefit in the same way from unethical behavior. Such would be the case, for instance, if one person were responsible for financial interactions with suppliers and the other person were responsible for financial interactions with clients.

Partial Solutions

When people are financially or otherwise dependent to some extent on people or organizations that could influence their ethical behavior, the effects are similar to those of nonmonetary influences. A common solution, according to the rational-choice perspective, is partial financial dependency, which should lead to less corruption than full dependency would. For example, a research center that was fully funded by only one donor would be expected to produce research results in accord with the interests of that particular donor, and the traditional solution to that dependency problem is to diversify the donor pool.

BE research on topics such as half lies[53] suggests, however, that partial dependency may create more fertile ground for corruption, because good people will have more leeway to convince themselves that the influence of any individual donor is small. Partial solutions thus provide the worst of both worlds: The problem does not go away, but good people are given the opportunity to think that it did go away, which further reduces their willingness to fight any corrupting dependency. This example translates to a larger principle: Any solution to a conflict of interest that does not eliminate the problem but only makes the conflict less blatant is likely to increase the chances that good people will behave badly.

Explicit Language in Ethical Codes

The final standard approach I discuss here is probably the most traditional: explicit ethical codes. Views about their efficacy conflict.[54] Some evidence indicates, however, that they can be made more potent by drawing on new BE approaches that combine explicit and implicit ethical interventions. For example, in a working paper on the language of ethical codes, Maryam Kouchaki, Francesca Gino, and I showed that using the word *employees* instead of *we* in an organization's ethics code was more effective in curbing employees' unethical behavior.[55] What seems to drive the effect is that the word *we* signals to employees that they are part of a community and, as such, might be forgiven for their misconduct.

Tools Inspired by BE Research

Clearly, to root out most corruption, policymakers need to revisit their regulatory toolbox and expand it to take into account the various states of mind and situations that induce good people to shirk their institutional responsibilities. The tools below can help.

Ethical Nudges

The most well-known strategy I would suggest adding to the regulatory toolbox for fighting corruption in organizations is the nudge, made famous by Richard H. Thaler and Cass R. Sunstein's book by that name.[56] Nudges are interventions that lead to behavioral changes without limiting people's free choice.

Different types of nudges have different effects and policy implications. Long-used, classical nudges are meant to remind people to act in their own self-interest and take steps meant to, say, improve their health or save money on energy bills. In contrast, ethical nudges are meant to protect third parties. They may be less effective than classical nudges, partly because the attempt to suppress a person's self-interest is likely to encounter resistance; people will not be as motivated to respond to the nudge.[57] Nevertheless, ethical nudges can be useful.

One of the best-known examples of an ethical nudge that can reduce the incidence of unethical behavior in an organizational setting is affixing one's signature to the beginning of a document rather than to its end.[58] The success of this easy, practical nudge confirms that people change their behavior when reminded of their moral responsibility at the moment of decisionmaking. Such nudges should be implemented with caution, however, because making laws that require their use—which could render them too standard or routine—might eliminate the nudges' power to remind people of their moral and professional responsibilities (an idea suggested to me by Dan Ariely).

Although the importance of nudges and other implicit measures is now recognized, policymakers should not completely toss out traditional explicit interventions. These might sometimes be more effective than implicit measures, such as for avoiding conflicts of interest. In my 2017 study with Halili, involving survey firm workers who were asked to assess a research institution that they understood might give them future work, the participants either read explicit statements about which actions are legal and moral or filled out a word-completion exercise relating to morality and deterrence of corruption before engaging in the subtle conflict-of-interest situation. We found that only the explicit messaging regarding legality and morality was effective.[23] This result is consistent with BE research showing that overt reminders to behave morally increase ethical behavior.[59]

Ways to Prevent the Corruption of Good People

Situations That Promote Corruption	Classic Solutions and Their Pitfalls	Behavioral Ethics Solutions
Vague rules and norms Ambiguity enables people who view themselves as moral to convince themselves that unethical behavior is ethical and hence legal. **Nonmonetary conflicts of interest** People who would refuse outright bribes can often be swayed by more subtle rewards, such as opportunities for self-promotion. **Availability of justifications** Corruption is more likely if people can convince themselves that everyone is acting in a certain way or that they are not hurting anyone. **Loyalty to an organization** Feeling responsible to one's organization can reduce ethical restraints on hurting customers, suppliers, and others if doing so benefits the organization.	**Disclosures of conflicts of interest** Ironically, delivering disclosures to customers or patients can give people license to behave in a self-interested way. **The four-eyes principle** Having two people approve all transactions is a widely used strategy to reduce unethical behavior, but research suggests that involvement of more people might actually increase corruption. **Partial solutions** Partial solutions (such as avoiding full dependency) could be worse than no solutions. For example, having multiple sources of funding makes it easy to feel that an ethically hazy reward provided by any one of the sources does not harm the objectivity of the funded organization. **Ethical codes** Such codes are widely used in organizations, but not enough attention is paid to the effects of the particular words that are used; some language choices might increase unethical behavior rather than decrease it.	**Nudges** Nudges that frequently remind people of their ethical responsibilities may be particularly effective at promoting moral behavior. (See "Mandatory declarations" below for an example.) **Detection** Enforcement programs that invest resources in detecting corruption may be more effective deterrents than large fines (which may seem irrelevant to people who do not see themselves as behaving corruptly.) **Blinding** Restricting access to information that might prejudice responses to other people can reduce both explicit and implicit biases. **Targeted policies** Focusing on the ways that specific situations increase vulnerability to behaving unethically can be more effective than a one-size-fits-all approach. **Mandatory declarations** For corporate or government decisionmakers, frequent use of written declarations of conflicts of interest might make it harder to ignore having such conflicts.

An Emphasis on Detection

Back in 1968, Nobel laureate Gary S. Becker put forth the now-accepted notion that the effectiveness of a regulation as a deterrent to bad behavior is equal to the perception of the expected cost of being caught.[60] But BE research now challenges this equation.[31]

If, indeed, good people are not fully aware of the legal consequences of their unethical behaviors, they will be unlikely to accurately assess the benefit of that misconduct relative to its legal cost. In this regard, the BE literature supports findings from deterrence research indicating that increasing the likelihood of detection does more to prevent misconduct than increasing the size of threatened penalties does.[61] A threat

of punishment can be useful, however, if it is combined with detection efforts and if the form of punishment attempts both to change the social meaning of the behavior and to convey moral norms that reinforce awareness of the ethical nature of a behavior.[62,63]

A primary focus on the magnitude of penalties, though, is particularly ill-suited to influencing the behavior of good people, who are less likely than criminals to calculate the potential punishment they might receive. Further, good people do not think that their behavior is corrupt or, at least, do not think it is as corrupt as legal policymakers would. Thus, especially when dealing with gray behaviors—the kind many of my examples have described—organizations and

regulators should invest in detection rather than in increasing penalties, which assumes a calculative mind-set. (See notes E and F.)

Blinding

An important way to curb corruption related to bias is to expand efforts to disguise personal information, a strategy that is already used to avoid discrimination in employment and the justice system. In employment discrimination, this practice has been shown to be highly effective at curbing implicit biases and the unconscious effects of self-interest. In an effort to expand on that success, Christopher Robertson and Aaron Kesselheim edited a recent book on ways that blocking information might prevent unconscious biases in many institutional contexts.[64] For instance, they argue that when an expert is being paid to write an opinion about something, the expert is less likely to be biased in that opinion if he or she does not know the identity of the payer.

Use of Targeted & Integrated Policies

The motivations that drive behavior vary between people. Even good people have multiple motivations, some of which can impel them to do bad things. Two main strategies can deal with this heterogeneity and, at the same time, address people's frequent lack of awareness of their own corruption: (a) a targeted approach that is based on context-specific data collection and is tailored toward a given situation and population or (b) an integrated approach that encompasses a large number of regulatory tools and that attempts to deal with a number of different mind-sets. Each strategy has its pros and cons, and they can be used separately or together.

In the targeted, or differentiated, approach, regulations address the specific situational factors that foster corruption for particular groups. For example, regulators might need to expand their focus, not only screening bank accounts for deposits of corrupting payments but also tracking the influence of nonmonetary inducements, such as positive media coverage and prestige. In work on pharmaceutical corruption, my colleagues and I have suggested that scientists in pharmaceutical companies are

"Even good people have multiple motivations, some of which can impel them to do bad things"

often motivated by prestige and self-fulfillment; therefore, some may cut corners in their research to achieve positive results in their clinical trials of drugs. Financial fines are less relevant for this population and more appropriate for pharmaceutical executives, who might engage in misleading marketing practices to increase profits for the corporation and, hence, would be more sensitive to monetary fines.[65]

An example of the broader, integrated approach has been proposed by Shahar Ayal and his colleagues.[59] They call it REVISE, which is an acronym for REminding people not to use gray areas to justify dishonesty (by providing subtle cues that increase the salience of ethical criteria); VIsibility, or using procedures that increase people's awareness that they are being seen and recognized by other people who know them; and SElf-engagement, or reducing the gap between people's abstract perceptions of their moral self-image and their actual behavior (to keep their idealized self-image from allowing them to do wrong yet still feel that they are moral individuals). For instance, making it clear that technology is monitoring computer-based transactions should increase employees' awareness that the organization demands ethical behavior.

Mandatory Declarations Used as Ethical Reminders

A more legalistic approach to the REVISE scheme emphasizes moral reminders and uses declarations to deter misconduct that stems from people's lack of attention to their own wrongdoing and from the various self-serving mechanisms discussed above. For example, before every meeting in which executives vote, it can help to have all participants write out and sign a declaration stating that they understand the types of conflicts of interest that they need

to reveal, that they do not have such conflicts, and that they know the relevant laws. Such declarations can serve two purposes. From a behavioral perspective, writing out a declaration prevents a person who wants to maintain an ethical self-image from failing to announce a conflict of interest; such omissions can be downplayed in a person's mind more than a stating an outright a lie can.[66] From a legal perspective, writing a declaration in their own handwriting reminds people that they can be prosecuted for perjury; reminders of legal consequences have been shown to be effective even for relatively subtle conflict of interests.[23]

Conclusion

In this article, I have contrasted the BE and the rational-choice accounts of the corrupted agent. Recognizing that some of the corruption in society in general and organizations in particular can be attributed to good people who view themselves as ethical and understanding the factors that cause such individuals to go astray are important for three main reasons. First, identifying the situations that enable ethical misconduct in such individuals (such as ambiguity in rules and corporate environments) can allow policymakers to alter those situations or to increase scrutiny over them. Second, the realization from BE research that some of the anticorruption tools based on rational-choice theories can have inadvertently counterproductive effects, especially on good people, can enable policymakers to be on the lookout for such effects. Finally, BE research suggests some additional tools that policymakers could use to curb corruption, such as blinding and ethical nudges. By expanding their toolbox; using a differentiated, situation-specific approach when data on a given situation exist; and using a comprehensive, integrated approach when data on specific situations are not available, policymakers will be able to make new strides in reducing corruption.

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endnotes

A. For a discussion on using incentives to motivate ethical behavior in organizations, see "Reinforcing Ethical Decision Making Through Corporate Culture," by A. Y. Chen, R. B. Sawyers, and P. F. Williams, 1997, *Journal of Business Ethics, 16;* the relevant section begins on page 862.

B. Note that the "good people" scholarship is usually different from the type of research conducted by Philip Zimbardo on the Lucifer effect, which is described in *The Lucifer Effect: Understanding How Good People Turn Evil,* by P. Zimbardo, 2007, New York, NY: Random House. The "good people" research generally tries to explain how ordinary people end up doing evil or at least engaging in gross criminal behaviors.

C. For research suggesting that automaticity can lead to cooperation rather than corruption, see David G. Rand's research paradigm on this topic, as is described in the article "Social Context and the Dynamics of Cooperative Choice," by D. G. Rand, G. E. Newman, and O. M. Wurzbacher, 2015, *Journal of Behavioral Decision Making, 28,* 159–166. This argument was also recently summarized in a meta-analysis suggesting that peoples' intuition is actually more likely to lead them to be cooperative: "Cooperation, Fast and Slow: Meta-Analytic Evidence for a Theory of Social Heuristics and Self-Interested Deliberation," by D. G. Rand, 2016, *Psychological Science, 27,* 1192–1206 (https://doi.org/10.1177/0956797616654455).

D. Analogous to rationales used in the corporate setting, the rationales (for example, "It's a new era") that illegal downloaders of copyrighted files use to justify their behavior, as well as the tactics used by both copyright holders and regulators to fight these types of rationales, are reviewed in "The Law and Norms of File Sharing," by Y. Feldman and J. Nadler, 2006, *San Diego Law Review, 43,* 577–618.

E. For a review of algorithms used by different corporations to detect employees' unethical behavior when it happens rather than relying on ex post facto punishment, see "The Ethics of Intracorporate Behavioral Ethics," by T. Haugh, 2017, *California Law Review Online, 8,* https://doi.org/10.15779/Z38TD9N731.

F. For an approach that tries to separate deterrence and moral reminders, see "The Expressive Function of Trade Secret Law: Legality, Cost, Intrinsic Motivation, and Consensus," by Y. Feldman, 2009, *Journal of Empirical Legal Studies, 6,* 177–212, and "Deterrence and Moral Persuasion Effects on Corporate Tax Compliance: Findings From a Randomized Controlled Trial," by B. Ariel, 2012, *Criminology, 50,* 27–69. For a look at the effects of small punishments, see "The Effect of Unpleasant Experiences on Evaluation and Behavior," by A. Schurr, D. Rodensky, and I. Erev, 2014, *Journal of Economic Behavior & Organization, 106,* 1–9.

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