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Stumbling Into Bad Behavior

By MAX H. BAZERMAN and ANN E. TENBRUNSEL APRIL 20, 2011

IT'S easy to look at big names like Warren E. Buffett, and big companies like Ernst and Young, and be judgmental. Of course they overlooked ethical lapses. Why wouldn't they? That's business.

Regulators, prosecutors and journalists tend to focus on corruption caused by willful actions or ignorance. But in our research, and in the work of other scholars who study the psychology of behavioral ethics, we have found that much unethical conduct that goes on, whether in social life or work life, happens because people are unconsciously fooling themselves. They overlook transgressions — bending a rule to help a colleague, overlooking information that might damage the reputation of a client — because it is in their interest to do so.

When we are busy focused on common organizational goals, like quarterly earnings or sales quotas, the ethical implications of important decisions can fade from our minds. Through this ethical fading, we end up engaging in or condoning behavior that we would condemn if we were consciously aware of it.

The underlying psychology helps explain why ethical lapses in the corporate world seem so pervasive and intractable. It also explains why sanctions, like fines and penalties, can have the perverse effect of increasing the undesirable behaviors they are designed to discourage.

In one study, published in 1999, participants were asked to play the role of a manufacturer in an industry known for emitting toxic gas. The participants were told that their industry was under pressure from environmentalists. To ward off potential legislation, the manufacturers had reached a voluntary but costly agreement to run equipment that would limit the toxic emissions. Some participants were told they would face modest financial sanctions if they broke the agreement; others were told they would face no sanctions if they did.

An economic analysis would predict that the threat of sanctions would increase compliance with the agreement. Instead, participants who faced a potential fine cheated more, not less, than those who faced no sanctions. With no penalty, the situation was construed as an ethical dilemma; the penalty caused individuals to view the decision as a financial one.

When we fail to notice that a decision has an ethical component, we are able to behave unethically while maintaining a positive self-image. No wonder, then, that our research shows that people consistently believe themselves to be more ethical than they are.

In addition to preventing us from noticing our own unethical conduct, ethical fading causes us to overlook the unethical behavior of others. In the run-up to the financial crisis, corporate boards, auditing firms, credit-rating agencies and other parties had easy access to damning data that they should have noticed and reported. Yet they didn't do so, at least in part because of "motivated blindness" — the tendency to overlook information that works against one's best interest. Ample research shows that people who have a vested self-interest, even the most honest among us, have difficulty being objective. Worse yet, they fail to recognize their lack of objectivity.

In one experiment for a study published last year, student participants were asked to estimate a fictitious company's value. They were assigned one of four roles:

buyer, seller, buyer's auditor or seller's auditor. All participants read the same information, including an array of data to help them estimate the firm's worth. Not surprisingly, sellers provided higher estimates of the company's worth than buyers did. More interestingly, the auditors, who were advising either a buyer or a seller, were also strongly biased toward the interests of their clients.

Rather than making a conscious decision to favor their clients, the auditors incorporated information about the company in a biased way — with the sellers' auditors providing estimates that were 30 percent higher, on average, than the estimates of auditors who served buyers. The study was replicated, with actual auditors from one of the “Big Four” accounting firms, and with similar results.

A solution often advocated for this lack of objectivity is to increase transparency through disclosure of conflicts of interest. But a 2005 study by Daylian M. Cain, George Loewenstein and Don A. Moore found that disclosure can exacerbate such conflicts by causing people to feel absolved of their duty to be objective. Moreover, such disclosure causes its “victims” to be even more trusting, to their detriment.

Our legal system often focuses on whether unethical behavior represents “willful misconduct” or “gross negligence.” Typically people are only held accountable if their unethical decisions appear to have been intentional — and of course, if they consciously make such decisions, they should be. But unintentional influences on unethical behavior can have equally damaging outcomes.

Our confidence in our own integrity is frequently overrated. Good people unknowingly contribute to unethical actions, so reforms need to address the often hidden influences on our behavior. Auditors should only audit; they should not be allowed to sell other services or profit from pleasing their customers. Similarly, if we want credit-rating agencies to be objective, they need to keep an appropriate distance from the issuers of the securities they assess. True reform needs to go beyond fines and disclosures; if we are to truly eliminate conflicts of interest we must understand the psychology behind them.

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