

May 2018

Behavioral Ethics and Governmental Auditing

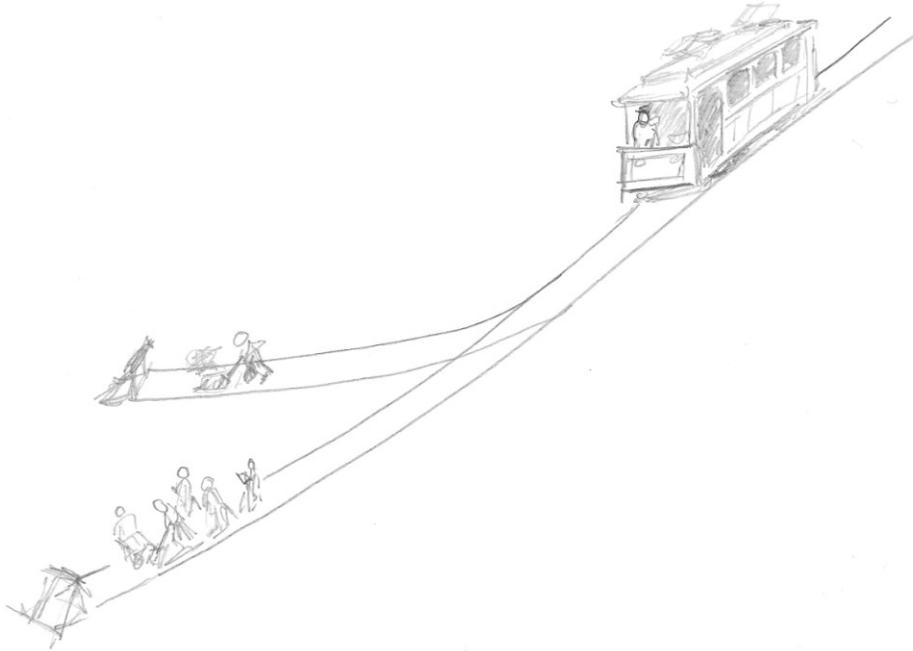
James M. Lager

Adjunct Professor, Robert H. Smith School of Business,

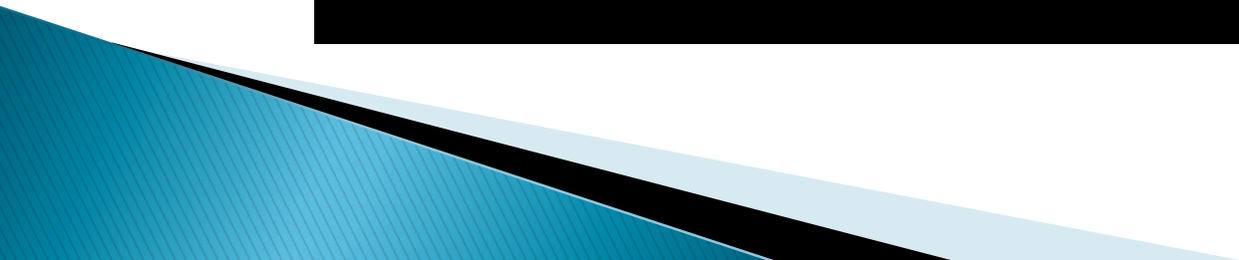
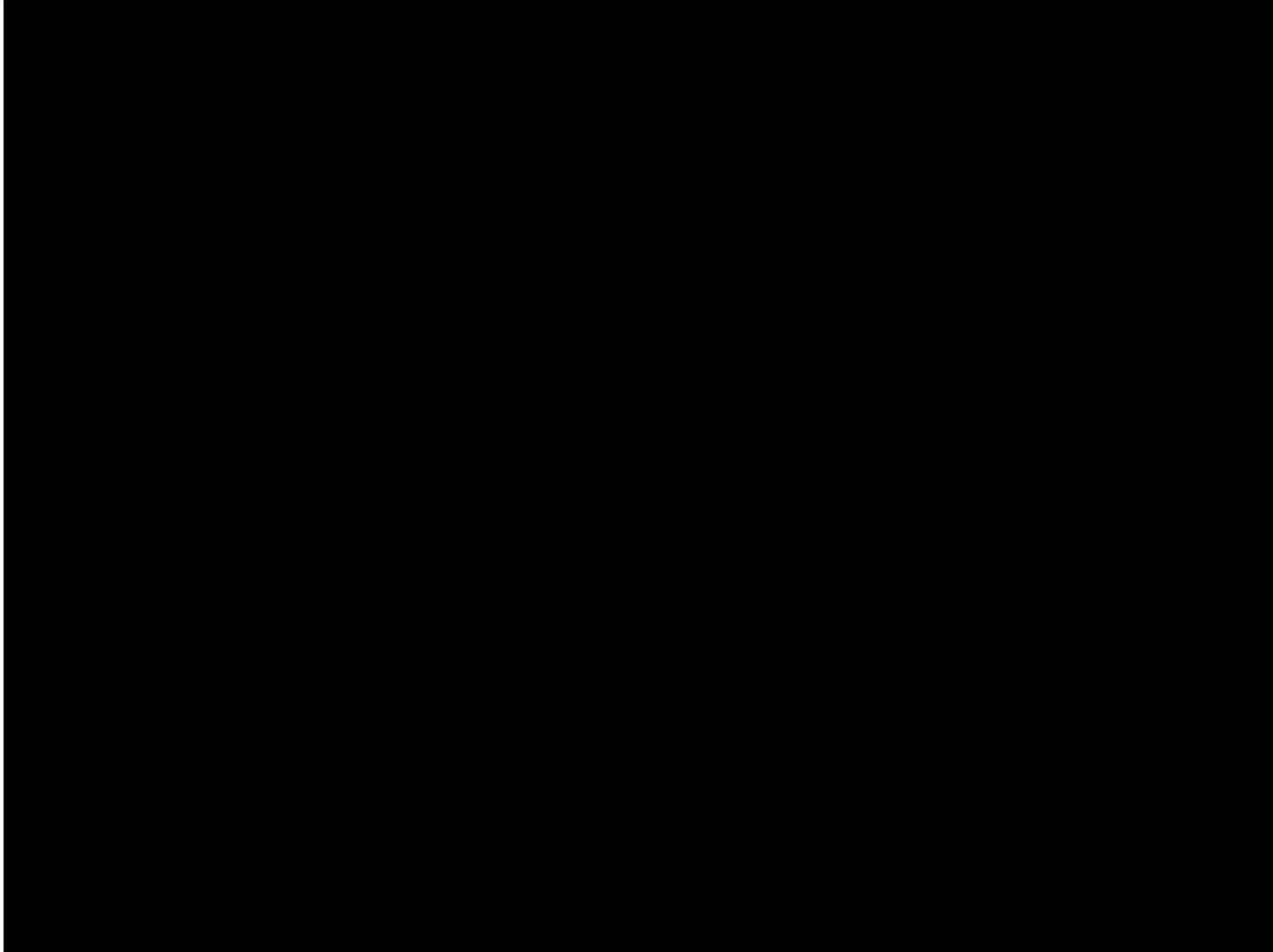
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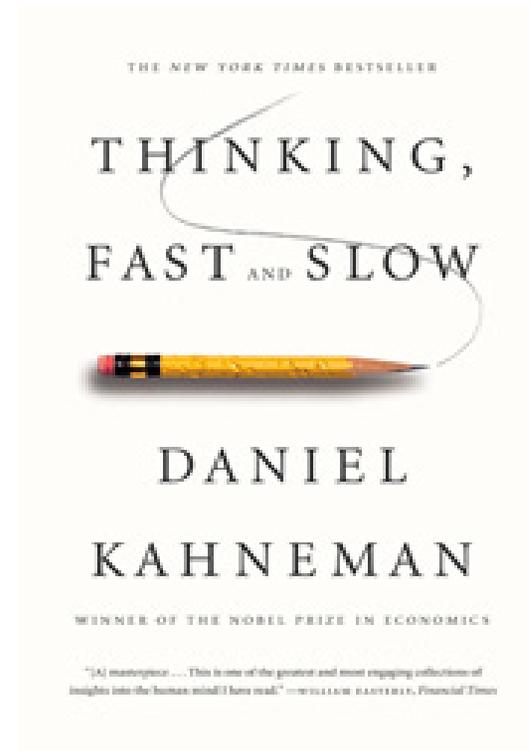
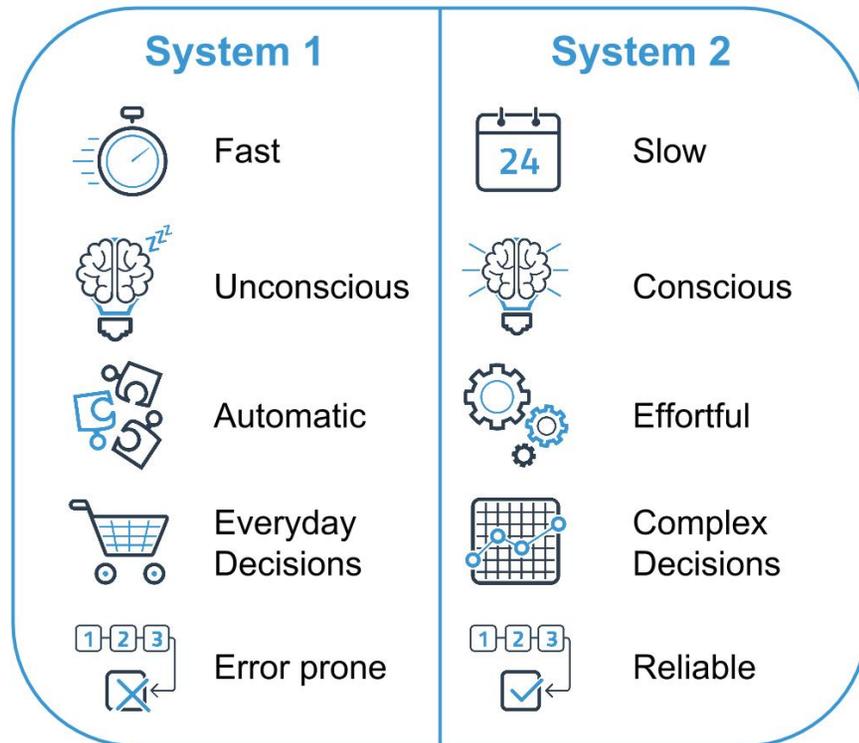
A rational view of ethics



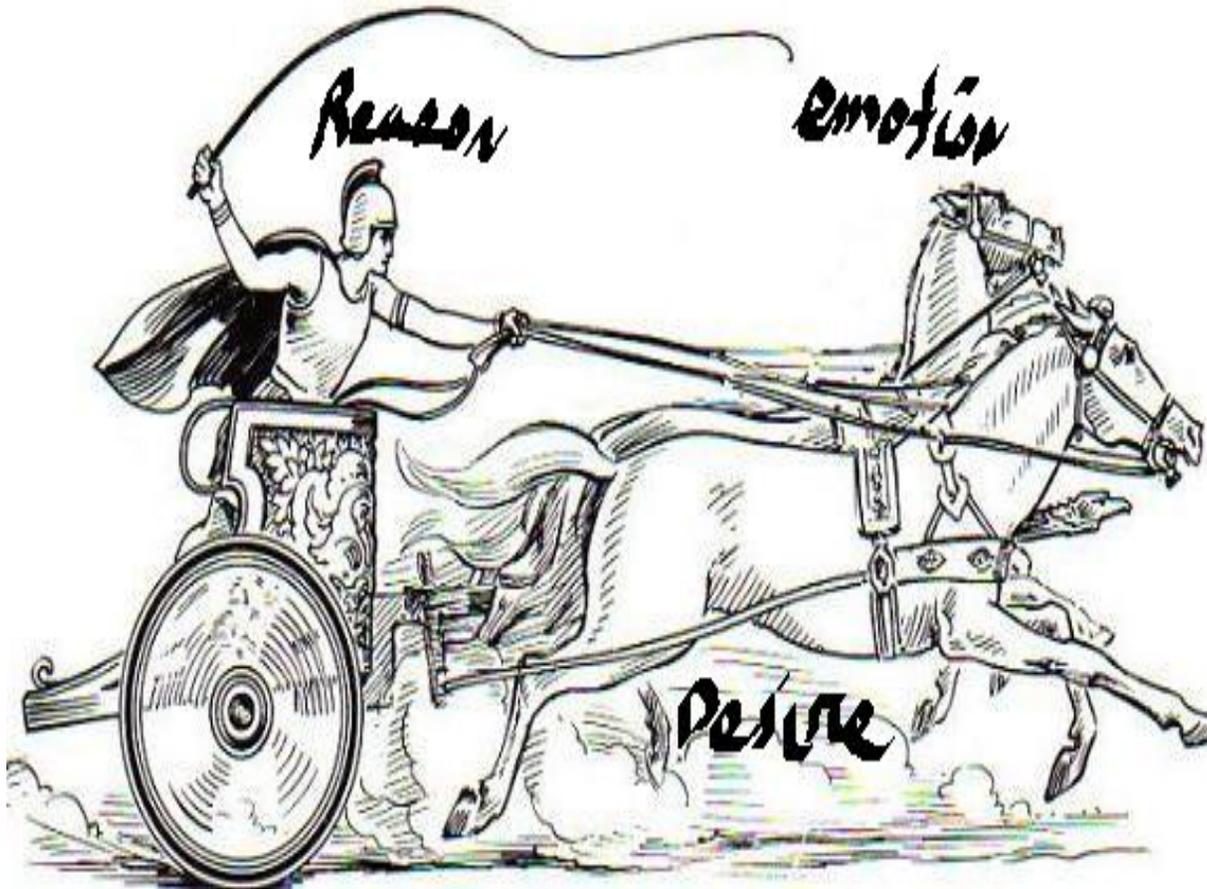
Think Fast!



Hot and Cold Cognition



Who is in charge anyhow?

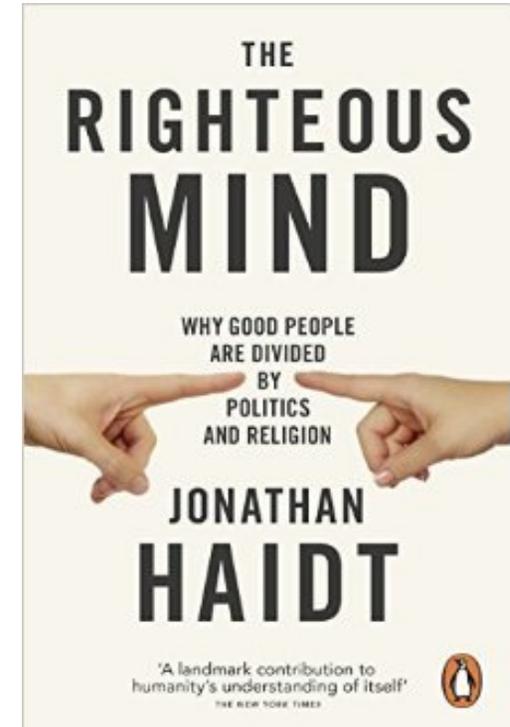
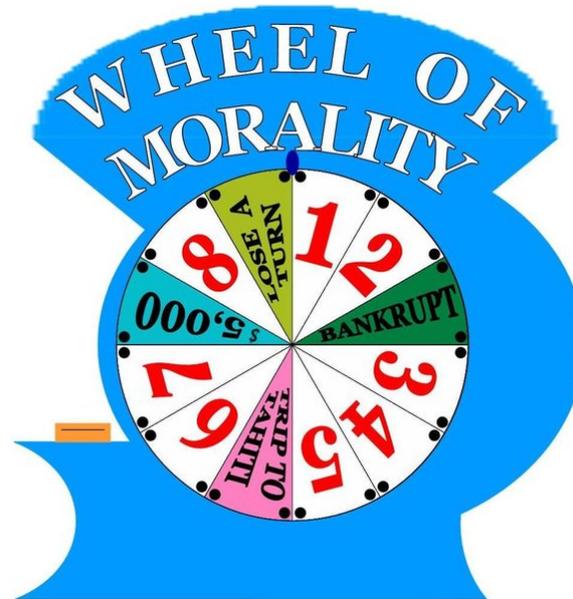


Plato (Phaedrus); Katha Upanishad

Moral Judgments

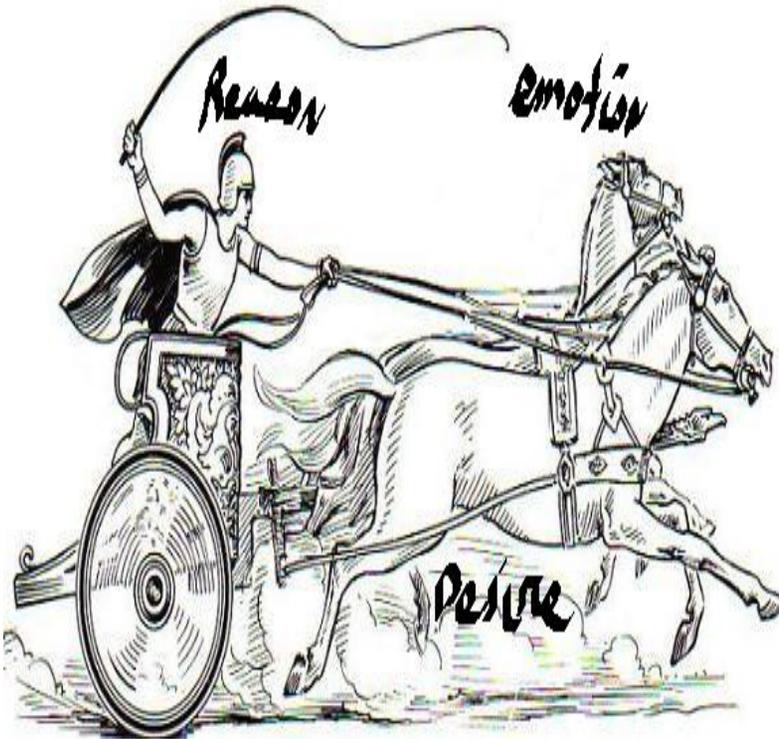
Are Made Automatically
Quickly
Immediately

System 1



We explain why (system 2) after the fact

Who is in charge anyhow?



For ethical decisions, “intuition (**the elephant**) comes first, strategic reasoning (**the rider**) second.”

The elephant is unconscious, intuitive, and automatic.

It's really hard to control an elephant.

Let's Find Out How Humans Really Think and Behave

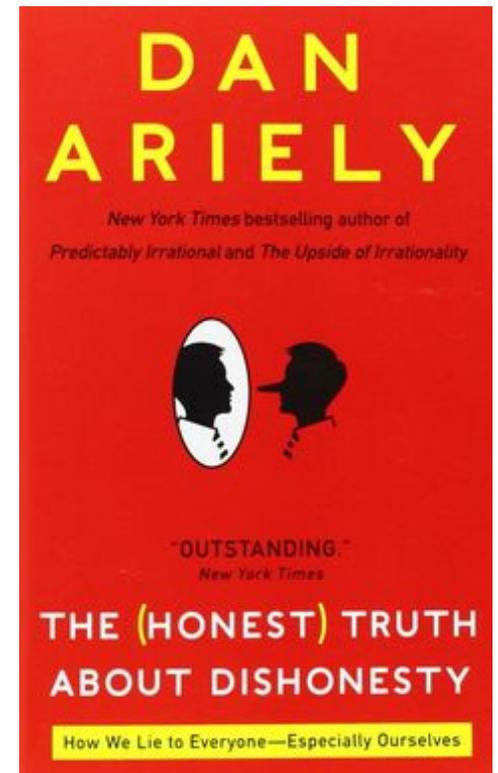
MATH TEST!

Group 1

“Checked” condition: Usually about 5.x correct

Group 2

“Cheating” condition: Usually about 7.x correct



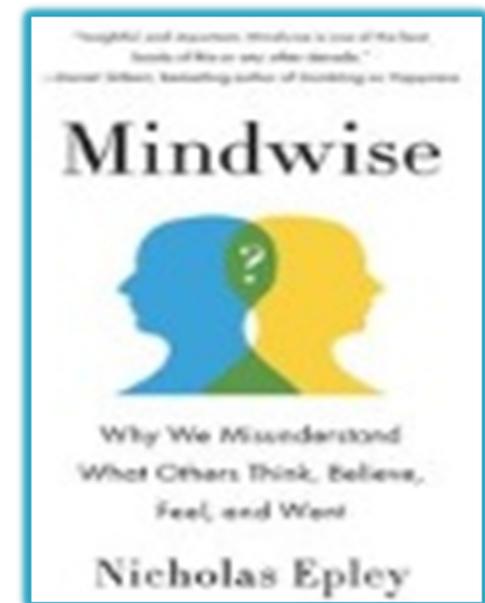
Insights from Behavioral Ethics

Most ethical problems stem not from people seeking to enrich themselves, but from unconscious bias.

- Most people believe they are more ethical than others
- Most people have an **illusion of objectivity** and think that they are better able to put aside self-interest

A photograph of a handwritten sign on a piece of yellowish paper. The text is written in black marker in all caps, with 'HOLIER' on the top line and 'THAN THOU' on the bottom line. The handwriting is somewhat shaky and informal.

- Confirmation bias assures ourselves that we really are right!



Insights from Behavioral Ethics

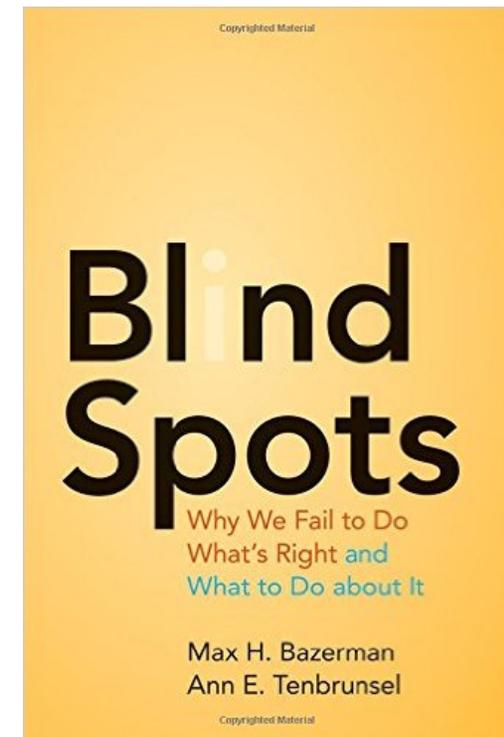
Good people do bad things often unaware that they are doing anything wrong

Bounded ethicality: We don't see the ethical dimensions of decisions because of systematic and predictable ethical blind spots

Should Self – The person who knows what is correct.

Want Self – Acts from self-interest often without regard for moral principles.

The “want self” emerges and dominates when decisions are being made.



Examine the Ethical System

What forces are acting on the people involved?

GRADE INFLATION



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Other System Examples

POOR PERFORMANCE MEASURES

- ❑ A compensation system that rewards bank employees for the number of new accounts opened pleads for fraud.



- ❑ A compensation system that rewards government officials to meet performance goals based on a single metric begs for fraud.

VA



U.S. Department
of Veterans Affairs

Other Examples

MISALIGNED REWARDS SYSTEMS

- ❑ Professionals with primary duties to the public but who are paid by their clients are unable to make unbiased judgments about their clients.

The logo for a Certified Public Accountant (CPA) features the letters "CPA" in a bold, blue, sans-serif font. The letters are centered within a white circle that has a soft, light blue glow around it. The background of the slide is white, with a decorative blue and black geometric shape in the bottom-left corner.

CPA

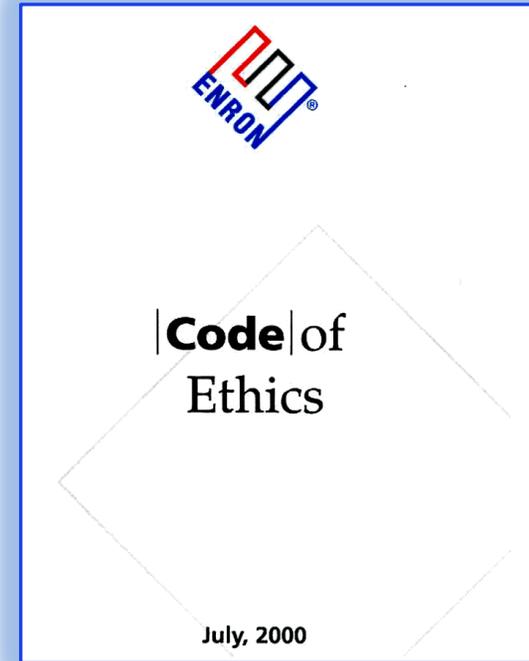
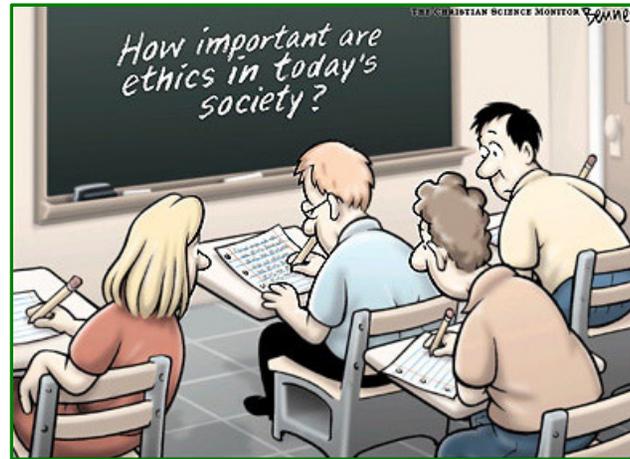
Certified
Public
Accountant

Do Formal Compliance and Ethics Programs Work?

Codes of Conduct

Ethics Training

Punishment



No evidence Codes of Conduct change behavior

No evidence ethics training changes behavior

Evidence unclear that punishment works

The threat of being caught deters!

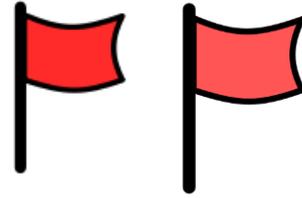
Having a formal ethics program is correlated with having a supportive ethical culture



Ethical Culture Works



Behavioral Ethics



Reliance on “Good” People

Even good people do bad things.

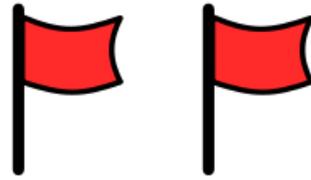
Decisions Made Near Deadlines or Under Stress

People who are cognitively busy or tired rely on system 1 thinking.

Goals Gone Wild

Stretch goals asks for stretches of the truth and other mischief.

Behavioral Ethics



Poor Performance Measures

Expect single measures of success to be managed.

Private firms providing gov't certification

Competition among firms leads to violation when price is fixed.

No Segregation of duties

It makes it easier for people to listen to their want self.

Behavioral Ethics Nudges

Sign at the top!

Occasional moral reminders.

Rewards based on several measures.

Eliminate “stretch goals”

Reward good process, not results or output

Remind employees of the public purpose of their work.

For Better Ethics

Human behavior runs through psychology

Cognitive and moral

Omnipresent human biases

Groups and teams

Rules and education are not enough

Rules were made to be _____.

Knowledge rarely changes behavior

For Better Ethics

**Attend to the systems shaping
the elephant's path**

Pressures on the path

**Make it easy to do the right
thing**

Be wary of compliance

Compliance \neq Ethics

**“Ethics is not a belief problem,
it’s a design problem.”**

Nick Epley, University of Chicago

Questions and Discussion

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