
Is Your Ethics and Compliance Training Akin to a Revolving Hamster Wheel?

Why Behavioral Ethics is Key to Ethical Leadership Training and Value-Based Ethics Programs

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Regulated industries spend a lot of time and money on creating policy and procedure manuals, online compliance training and code of conduct courses, yet ethics violations still occur, and they're expensive. It's no surprise really; the yearly cycle of ethics and compliance training can hit a repetitive wall with only minor fluctuations in content design and delivery. The result is corporate leaders and employees that merely roll up their sleeves for their annual ethics flu shot and move on to the next meeting. Not quite the result one planned.

That is not to say that these approaches are wrong and we have seen them evolve. Ethics and compliance training started as rule-based, then advanced to include real-world scenarios, gamification, and appropriate humor. All these evolutions made ethics and compliance training more relevant and delivered in a format and language that learners could understand and more readily apply. But how do we raise the bar to the next level?

What the Heck Is Behavioral Ethics and Why Is It Key to Value-Based Ethics Programs.

The next evolution for value-based ethics and compliance programs is to incorporate behavioral ethics into the approach. Behavioral ethics research, which provides insight into how individuals and groups make ethical decisions, is flourishing. The research gives us insight into **why** good employees behave unethically, **how** they reach moral decisions, and **when** unethical behavior is more likely. Behavioral research also considers the kinds of messages and incentives that are the most effective. Awareness and insight gained from behavioral ethics can aid organizations in producing better training and more ethical leaders.

Is Cheating Caused by Just A few Bad Apples?

Dan Ariely, psychology and behavioral economics professor at Duke, was intrigued by the 2001 Enron Scandal in which its aggressive and misleading accounting practices, coupled with a dysfunctional corporate culture led to bankruptcy and exposure to widespread corruption. He wondered if this unethical behavior, which he termed cheating, was just a few bad or was it endemic - that many people were willing to act unethically (cheat).

To explore the realm of cheating and what makes individuals more likely to cheat, he set up a series of experiments. His control group consisted of individuals that were handed a paper with 20 simple math problems that everyone could solve, but he only gave them 5 minutes to solve. When the 5 minutes was up, they were told to hand in their papers, and they would receive one dollar for every question solved; this gave the investigators the ability to gauge true performance over time in a large sample. The average number of problems solved was 4.

Next, he wanted to see what would happen if he tempted individuals to cheat. The same format was followed although this time the individuals were asked to self-grade their tests, shred them, throw away the shredded pieces and then tell the administrator how many questions they solved. Self-graders claimed an average of 7 correct answers. What this experiment demonstrated was that it wasn't a few bad apples, it was a lot of people that cheated a little bit. This same result was repeated despite increasing or decreasing the amount of money or the probability of being caught.

The fact that no one even tried to claim the maximum amount available suggests that individuals have some degree of ethical control. **They will cheat out of temptation, but only to the point where they can maintain a self-image as a non-cheater.**

Do Ethical Nudges Decrease the Incidence of Cheating?

Based on the result, Ariely wanted to see if there was a way to shrink the incidence of cheating. In his next experiment, he asked participants to recite the ten commandments or sign an honor code before solving the math problems, and the result was - no cheating. So, it appears that ethical nudges given prior to an event decrease the incidence of cheating.

Observed Learnings.

Donald Langevoort, Professor of Law at Georgetown and author of law review articles which incorporate insights from social psychology and behavioral economics, observed that the research showed that “people tend to cheat less than they might get away with, even when assured of no possibility of detection and a sure financial gain. At the same time, they cheat more than they should as an ethical manner.” But why?

What Makes Individuals More Likely to Cheat?

The research is vast in this area, but it appears that a mix of cognitive frame biases, situational influences, and dispositional character make cheating more likely. I'll touch on some of the most common individual and group factors that are cited by researchers and are ones that I most commonly see in organizations.

- **Loss Aversion** (Kahneman-Tversky)

The way things are portrayed or framed to us influence our perceptions (is the glass-half-full or half-empty) and bias our decision-making process. A view of perceived loss leads to more risk-taking than a perceived gain of equal proportion.

When individuals are faced with a threatened loss, such as falling short of expectations or quota, they are willing to take on more risk. What behavior would one expect to see when a company sets unrealistic expectations or what has been termed “goals gone wild” (Ordonez et al. 2009). Excessive pressure to reach unrealistic performance targets can encourage people to make risky choices and cut corners to achieve their goals.

- **Hyperbolic Time Discounting**

Decision making becomes biased when an individual overweighs present benefits over future cost. Time discounting is often seen when the threat of punishment is both uncertain and distant. “Revenue now, compliance violation later - if ever” is a biased cost-benefit analysis error that I have seen some senior leaders make (and come to regret).

- **Slippery Slopes**

If individuals are willing to step over the line only a bit, that line moves so that when another temptation arises, the next small step takes them even further away from the baseline. These small steps are often done unconsciously at first, in a moment of weakness or with pressure from a colleague.

- **Loyalty & Culture**

Intense loyalty, team cohesion, and pressure to conform can bolster an individual to take more risks and is especially true if competition and rivalry are present. Competition and rivalry can displace empathy, justify aggressive behavior and cause individuals to sacrifice their ethics to advance the interests of the group or to please the boss. They rationalize compliance failures in the name of loyalty. This loyalty, in my experience, only works until they're caught – then one would sell out their mother to avoid loss!

The prevailing culture of a team or organization also plays a factor. If there is a culture where risk-taking is rewarded, and there is a cynical view of regulators and compliance departments, risky behavior goes up. Compliance measures tend to threaten beliefs and practices that are viewed as success producing activities in these individuals.

- **Individual Self-Rationalization and Internal Dialogue**

“If the mind can somehow rationalize the act as acceptable...it self justifies the cheating” (Langevoort). Individuals who are driven by self-interest and have a problem, such as an unmet quota, that they feel cannot be solved unless they cheat, will find a way to convince themselves that they are acting ethically. Their awareness is subject to interpretation and shading that deflects guilt and delays the realization that what they are doing is wrong. Think of it as self-deception of the soul. It relates to Ariely's observation that individuals will cheat out of temptation, but only to the point where they can maintain a self-image as a none cheater.

Conclusion and Solutions

Many of you may find the information about behavioral ethics intriguing and somewhat instinctive and your organization may have already put controls in place to decrease unrealistic quotas and practices. But, is there more to be done?

The solution is two-fold:

1. Ethics & Compliance Team

- Ensure that your ethics and compliance training isn't a repetitive cycle of refreshed content. The design and delivery method need to continually evolve and spark interest in the learner.
- Don't put all your eggs into the online ethics and compliance training basket. Online training fatigue is real. Consider live training with reputable outside vendors who can offer a fresh angle while supporting your key messages.
- Use ethical nudges before events like expense reporting to influence honest and ethical interactions in all areas of business.
- Make manuals and training more real-world. Employees are not lawyers and usually skip over compliance policies if they are overtly legalese.

2. Senior Leadership Team Training

- Most leaders will claim that they are ethical leaders, but they may be surprised to find that some of their actions may be unknowingly affecting the decision-making biases of others.
- Senior leaders are not immune to these same biases, so first and foremost they need to understand what makes individuals more likely to cheat and where the wiggle room or opportunity for motivated misinterpretation.
- Senior leaders benefit by having a roadmap of how to reinforce an ethical culture and how to refresh the tone at the top, and more importantly the tone at the middle, to ensure a balanced culture. The training should be interactive with case studies, workshops, and self-reflection.

The research offers us another opportunity to evolve. Isn't it time to incorporate behavioral ethics into your value-based ethics and compliance program and raise the bar by cultivating even more ethical leaders?

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ABOUT DMH ETHICS AND COMPLIANCE ADVISORS:

[DMH Ethics and Compliance Advisors](#) is a recognized leader in ethics consulting and compliance consulting and in the development, design, and delivery of real-world ethics and compliance training.

DMH understands that today's organizations look for leaders that model ethical behavior and understand the compliance-related risks of an organization. DMH founded the [Ethical Leadership Academy](#) to help leaders understand ethical challenges, provide insight into ethical decision making and take actions necessary to reinforce a culture of integrity.

To contact DMH about opportunities, or to see an example of the training, email mholloway@dmhbiopharm.com.

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