Session Objectives

- Overview of opportunities to apply latest thinking in behavioral economics to ethics and compliance
- How to integrate behavioral ethics into organizational programs
- Rethinking Goals and Success Measures
Why do people still engage in misconduct?

- Everybody does it
- I didn’t know it was wrong!
- I had to do it

What do we do about it?

- Code and Policies
- Tone at the Top
- Helplines
What’s missing?

What if we could get to the “Why”?

At the Core of Behavioral Economics and Ethics

Theory that individuals make strictly rational decisions is discredited.

Instead, decisions are influenced by two types of thinking that operate continuously within us:

• **System 1** – Intuitive process: fast and automatic
• **System 2** – Reasoning processes: serial and deliberate

The work of Daniel Kahneman, Nobel Prize discoverer of Behavioral Economics
LADDER OF INFEERENCE

1. SELECT DATA
2. MAKE ASSUMPTIONS
3. DRAW CONCLUSIONS
4. TAKE ACTION

Observable Data

THERE’S NEVER ANY PARKING!
FINALLY!

WHAT THE #$&!!
HE TOOK MY SPOT!!

That Car took That Space

1. SELECT DATA
2. MAKE ASSUMPTIONS
3. DRAW CONCLUSIONS
4. TAKE ACTION

- FOCUS ON ANGER & FAIRNESS
- WHO MADE HIM KING!
- I’LL TEACH HIM A LESSON
- @&&%!!!
MY WIFE’S IN LABOR!

NOW HOW DO YOU FEEL?
Behavioral Ethics

Most of us behave ethically most of the time.
At other times we are aware when we behave unethically.
The most dangerous situation is when we unwittingly behave unethically.

- Max Bazerman

Traditional approaches to ethics lack understanding of the unintentional, yet predictable cognitive patterns that result in unethical behavior.

Behavioral Ethics focuses on the psychological processes that lead even good people to engage in ethically questionable behavior that contradicts their own preferred standards.
Systems 1 and 2

System 1 – Intuitive process: fast and automatic
System 2 – Reasoning processes: serial and deliberate
Impressions and intuitions turn into beliefs, and impulses turn into voluntary actions.

But…

Rationalizing Unethical Behavior

System 1 – Intuitive process: fast and automatic
System 2 – Reasoning processes: serial and deliberate
Behavioral Ethics Primer

Individuals who fail to act or notice

Unconscious
Unaware that one’s actions cross ethical lines

Conscious
Individuals are aware their actions are wrong

The Road to Hell is Paved With Good Intentions

Unconscious
Unaware that one’s actions cross ethical lines

Bounded Awareness
We fail to notice information outside of our attention at the time of the decision (singular focus)

Bounded Ethicality
Outside of awareness & inconsistent with values (e.g. unconscious bias and double-standards)
Bounded Ethicality

PREDICTABLY IRRATIONAL

BY DAN ARIELY

We all cheat…just a little
**Conscious**

Individuals are aware their actions are wrong

**Rationalization**

**WHO’S REALLY HONEST ANYHOW?**

### Monthly Charges — Jan 18 thru Feb 18

<table>
<thead>
<tr>
<th>Service and Other Fees</th>
<th>Total Monthly Charges</th>
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</thead>
<tbody>
<tr>
<td>1. Internet for Phone Line</td>
<td>$50.00</td>
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<tr>
<td>2. International Travel, International</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Monthly Charges</td>
<td>$50.00</td>
</tr>
</tbody>
</table>

### Other Changes and Credits

- Subscription Fee: $20.00
- Additional Services for $10.00
- Credit Card Payment: $5.00
- Total Monthly Charges: $50.00
New Approaches

Influences

Changing Oneself

System 1
Courtesy Google Earth
Move Individuals to System 2

Ask Lots of Questions
Allow for Reaction Time

Goals and Success Metrics

# ?

System 1

Effectiveness?

System 2

# ?