Today's Objectives

• Why do people cheat/commit fraud?
  -- Traditional view
• What current research tells us about traditional view
  -- Ariely
• How people are primed to cheat/commit fraud
  -- Kouchaki, et.al.
• Actual psychological checks on cheating/committing fraud
• Management techniques to reduce cheating and fraud

Why do people cheat/commit fraud?
Why do people cheat/commit fraud? 

**BECAUSE THEY CAN!!**

- Assumption of psychological egoism
- Cost-benefit analysis

How do you manage to minimize cheating and fraud?

Old school
Carrot and/or stick
Incentivise and disincentivise

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Recent Research on Motivation
Sources

Behavioral economics
-- study behavior of actual economic agents in actual markets, rather than idealized actors in idealized markets

Behavioral ethics
-- new field of social scientific research that seeks to understand how people actually behave when confronted with ethical dilemmas

Dan Ariely, Ph.D.

His Experience
What Needed Explaining

“The range of treatments in the burn department, and particularly the daily “bath” made me face a variety of irrational behaviors that were immensely painful and persistent. Upon leaving the hospital, I wanted to understand how to better deliver painful and unavoidable treatments to patients”
-- danariely.com

Removal of bandages
-- two options: quick & intensely painful
OR
-- slowly, less intense but longer

Nurses picked fast option
-- why?

The Experiments

Test subjects (students) given set of math problems and limited time to complete them (insufficient time to do all of them)

Will be paid $X amount for number of correct answers

After they are “done” shred their answer sheets and report to person at table how many they got correct

Collect money accordingly

What Do You Think Happened?

Lots of cheating, right?

WRONG!

Test subjects, on average, cheated a little bit, but not optimally
Variations on Experiment

After shredding answer sheets, take money from jar themselves

No significant change in degree of cheating

After shredding answers, take tokens from jar which they redeem for money in hallway outside of room

Increase in degree of cheating, but still not optimal

Final Variation

Study done at U of Pittsburgh

In one experiment, had student (actually an actor) wearing rival sweatshirt stand up after one minute and announce loudly, “I’m done!”

In second version, had student (actor) wearing U of Pittsburgh sweatshirt stand up after one minute and announce loudly, “I’m done!”

Results?

Increase in degree of cheating when it is U of Pittsburgh student, less cheating when rival student, but still not optimal cheating in either case

Take Aways

Incentive to cheat doesn’t necessarily increase degree of cheating

Two factors seem to play bigger role
  -- “Fudge Factor”
  -- Social norms
Role of “Priming” in Cheating/Committing Fraud

Priming

“An implicit memory effect in which exposure to one stimulus (i.e., perceptual pattern) influences the response to another stimulus.”

－ Wikipedia

Types of “primes”

Perceptual
Semantic
Conceptual

Money Priming (Kouchaki, et.al.)

Series of four studies using control groups

Descrambling exercise, then response to scenarios involving unethical behavior
Descrambling exercise, then word completion task
Descrambling exercise, then participation in deception game
Descrambling exercise, then response to hiring scenario

Money Priming
The hypothesis: Mere exposure to the construct of money increases the likelihood of unethical outcomes by triggering a business decision frame

All four studies supported hypothesis

Creativity Priming
Similar results when test subjects from Ariely’s experiments were primed to be ‘creative’ before taking the test hypothesis:

More cheating occurred

“*The Dark Side of Cheating, Francesca Gino & Dan Ariely, 2011.*

Some Conclusions
Incentive-based motivation not as powerful as self-image and social norms

Individuals can be subconsciously primed to make unethical decisions (or ethical decisions)
How to Manage for Ethical Decision-Making: Nudging

“Nudging”

Daniel Kahneman

Richard Thaler & Cass Sunstein

Definition

“A nudge, as we will use the term, is any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting fruit at eye level counts as a nudge. Banning junk food does not.”

— Thaler & Sunstein, Nudge
Why Effective?

Remember, explicit, quite conscious appeals to self-interest using incentive approach less a factor than self-conscious approaches

Agents retain sense of autonomous behavior

Can be designed

Achieve good outcomes

Examples

Fruit at eye level
First item in buffet line
“Opt out” versus “Opt in” 401(k)
Posters with faces to increase compliance
Fly in the urinal

Managing for Ethics Using Nudging

Appeals to fudge factor

-- When forms are signed off on
-- Screen reminders (Wells Fargo)
-- Email signatures
-- Moral reminders/signals on desk

Generally, using “priming” to make individuals self-aware/reflective
Managing for Ethics Using Nudging

Appeals to social norms
-- Mission/value statements throughout office
-- Meeting agenda openings
-- Subtle/gentle email reminders
-- Moral reminders/signals on desk

Questions? Comments?