

Education for Justice (E4J)  
University Module Series: Integrity & Ethics

## Module 8

# Behavioural Ethics\*

### Table of Contents

Introduction .....	1
Learning outcomes .....	2
Key issues .....	2
References .....	6
Exercises .....	7
Possible class structure .....	12
Core reading .....	13
Advanced reading .....	14
Student assessment .....	15
Additional teaching tools .....	15
Guidelines to develop a stand-alone course.....	16
Annex: Pre-class surveys .....	19

## Introduction

Evidence from behavioural science research has shown that people are less consistent and less rational in their decisions than they would like to admit to themselves. Sometimes a person may not be aware when his or her behaviour diverts from ethical standards. This is because justifications and biased judgment blur the perception of ethical breaches (OECD, 2018). This Module provides a brief introduction to the field of behavioural ethics, which studies the psychological processes that drive ethical and unethical behaviours. The aim of this Module is to provide students with insights into human behaviour that can be easily translated into actions they can take to create more ethical environments. The Module relies on students completing up to three surveys before class begins, as part of the

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\* Developed under UNODC's Education for Justice (E4J) initiative, a component of the Global Programme for the Implementation of the Doha Declaration, this Module forms part of the E4J University Module Series on Integrity and Ethics and is accompanied by a Teaching Guide. The full range of E4J materials includes university modules on Anti-Corruption, Crime Prevention and Criminal Justice, Cybercrime, Firearms, Organized Crime, Trafficking in Persons/Smuggling of Migrants, Counter-Terrorism, as well as Integrity and Ethics. All E4J university modules provide suggestions for in-class exercises, student assessments, slides, and other teaching tools that lecturers can adapt to their contexts, and integrate into existing university courses and programmes. All E4J university modules engage with existing academic research and debates, and may contain information, opinions and statements from a variety of sources, including press reports and independent experts. All E4J university modules, and the terms and conditions of their use, can be found on the [E4J website](https://www.unodc.org/e4j/).

preparation process. These surveys will provide data that can be used to illustrate concepts presented in the Module. Students will understand the concepts better when they can see those concepts in their own behaviour. The pre-class surveys are a critical innovation for this Module, as they illustrate not only course content but also how behavioural science is conducted.

The Module is a resource for lecturers. It provides an outline for a three-hour class but can be used for shorter or longer sessions, or extended into a full-fledged course (see: Guidelines to develop a stand-alone course).

## Learning outcomes

- Identify ethical risks in everyday life, societies, and organizations that can lead to unethical choices, such as structures that diffuse responsibility or a group that has collectively de-stigmatized unethical behaviour
- Understand that ethical choices are not made in isolation, but are part of social interaction (so what others think or do matters)
- Use behavioural insights to create an environment which encourages more ethical behaviour
- Appreciate that behavioural policy design can be implemented effectively to increase ethical behaviour at very little financial cost

## Key issues

People intuitively believe that ethical behaviour is a product of personal beliefs and characteristics, but there is increasing evidence that a person's context exerts a surprisingly powerful influence on behaviour. This Module adopts a psychological approach to understanding ethical behaviour. It addresses one of the most basic problems of ethics: why do ethical people sometimes behave unethically? Answering this question requires an understanding of fundamental psychological processes that can lead anyone down a slippery slope towards unethical behaviour, destroying careers and businesses and bring shame to individuals and organizations. This Module complements other modules in the E4J Integrity and Ethics [Module Series](#), although it offers a different perspective and works with different assumptions.

First, it is useful to understand the discourse surrounding ethical behaviour. Behavioural science has identified at least four common misunderstandings, or “myths”, about ethical behaviour that can impair or bias our ability to manage it effectively. By “myth” we mean a belief that has some element of truth but is generally exaggerated or oversimplified. These four basic myths about ethical behaviour can be summarized as follows:

- Myth 1: It's the individual: there are good people and bad people
- Myth 2: It's all about motives
- Myth 3: It's about ethical principles
- Myth 4: Everyone is different

The first myth is that ethical behaviour is a property of individual people, such that there are good people who act well and bad people who act badly. And, of course, the presumption is that you can identify these good people and bad people. However, in reality most people behave ethically in some circumstances and unethically in other circumstances. Ethical character is not as stable as one might expect.

The second myth is that behaviour is guided by intention: Bad acts are guided by bad intentions, and good acts are guided by good intentions. This, however, fails to take into account the power of context. Bad things can be done with good intentions; this is known as “Ethical Blindness”.

The third myth is that it’s all about ethical principles: ethical actions are guided by ethical reasoning. But the reality is that reasoning often follows action taken in order to justify, explain, or rationalize it.

The fourth myth is that everyone is different, and everything is relative. However, most people and societies recognize a basic moral foundation to build upon, even amid differences generated by individual experiences, background, and immediate context.

Behavioural science has demonstrated that there are two often overlooked aspects of decision-making: The first relates to the way in which individuals make moral choices: psychological shortcuts, misperceptions, and temptations can often divert the best intentions. Understanding the dynamics and pitfalls of moral choices can help guide decisions towards ethical ones. The second aspect relates to the ways in which social dynamics impact individual behaviour. Morality is influenced by the context people are in, not just by the type of people they are, and that this contextual influence is more powerful than people generally expect. Ethics is not just a question of individual moral choice, it is influenced by society, peers, family, neighbours and colleagues. Ethics can therefore be thought of as a design problem, in which social interactions play a critical role. When discussing these issues, lecturers can present the results of pre-class surveys 1 and 2 from the Exercises section of this Module, focusing on self-righteousness (Klein and Epley, 2016) and moral foundations (Graham, Haidt and Nosek, 2009). This implies that ethics should be treated as a problem of design rather than simply as a problem of beliefs or attitudes.

Current compliance programmes and policies to combat unethical behaviour are often based on the understanding that people will exploit an opportunity for misconduct whenever its profits are worth risking potential negative consequences. In other words, individuals are assumed to weigh the probability of getting caught and the ensuing sanctions against the undue gain they could obtain through action or inaction. The policy implications of such a view usually involve a high level of monitoring and enforcement. However, in reality such stringent policies do not always work, particularly in a context where unethical behaviour has become a norm and thus, there is a collective action trap in which moral appeals will fall on deaf ears.

Turning ethical principles into practice involves two basic steps. The first step is to understand the internal dynamics of moral choice making and the second step is to create norms that guide ethical action. Moral choice is a dynamic process. Evidence shows that individuals balance their moral choices by continuously comparing their current moral self-perception with their own moral reference point. The moral reference point represents the level of integrity individuals perceive as morally acceptable for themselves. If they find their own action deviates too much from their personal reference point, they counteract. This is known as ‘moral balancing’. This process of moral balancing is often unconscious. People do not like to be confronted with their own unethical behaviour. So they may apply justifications to make the dissonance between their moral standards and their actual behaviour appear less grave. When they do acknowledge the dissonance, they often feel bad about their behaviour, resulting in a desire to compensate or ‘balance’.

Another related issue is “ethical unawareness”: principles guide behaviour only when thinking about them, and people might not think about the principles when confronted with ethical dilemmas. To illustrate these points, the lecturer can discuss the investment advisor demonstration (Zhang and others, 2015) as an illustration of ethical (un)awareness (see pre-class survey 3 in the Exercises section of this Module). The demonstration illustrates how people might overlook an ethical goal (recommending an ethical company to invest in) if they are focusing on another goal (in this case, maximizing financial profit). However, this demonstration requires some understanding of financial systems including mutual funds and investment advisors (additional information is provided in the pre-class survey to make concepts clearer). If students are unfamiliar with these concepts, then this demonstration can be omitted. In its place, lecturers can discuss similar examples of cases in which people overlook ethical principles while pursuing another goal, such as unfairly helping a friend to get a job, or taking bribes to benefit oneself in the short run that come at a cost to others in the long run.

Policies can affect the internal dynamics of moral choice making and encourage individuals to follow their moral compass as well as to always be “ethically awarded” by:

- **Raising the moral reference point** by inducing people to compare their own actions against higher internal standards. Clearly defining ethical expectations and emphasizing the trust that the organization (and/or the public) has placed in them to help adjust the moral reference point upwards. Discouraging information, surveillance and distrust can, in turn, lower the moral reference point against which a person assesses his or her own behaviour.
- **Emphasizing the moral reference point.** Even individuals with very high internal moral standards sometimes fail to follow them. If this happens, a dissonance arises between a (considered) behaviour and the moral reference point. Addressing people’s personal morality and encouraging them to reflect on the ethical consequences of their actions can lead to more ethical choices.

The second step in enhancing ethical practices is to understand the context in which decisions take place. Moral choices are usually not taken in isolation. In fact, most human decisions are often driven by social motives such as loyalty, trust building, returning favours or helping someone out of a tricky situation. People take decisions

in their own best interest, but they also care about what others think or do. Social motives can work in favour or against ethical decisions. The opinions of outside observers usually matter to a decision maker: People prefer to act in a self-serving manner, but at the same time like to appear moral to others (Batson et al., 1999). Transparency and accountability mechanisms could thus reduce unethical behaviour. The perception that one's behaviour is visible and potentially observed introduces an element of accountability that makes it more difficult to justify, because potential observers could easily detect an excuse.

Transparency could also create a 'social multiplier' effect if it triggers dialogue. For example, a committee whose work is publicly observable and which occasionally receives comments or complaints from citizens, might feel more liable to the public. The regular reminder to its members that their decisions affect citizens reduces the perceived distance between action and harm, and thus, limits moral wiggle room.

"Reciprocity" plays a key role in most social interactions and it also lies at the core of many corrupt practices. Reciprocity can function as a motivation or excuse for engaging in corruption or unethical behaviour. Hiding behind good intentions can deter people from admitting the actual moral implications of misconduct to themselves or others. Typical justification patterns include:

- Self-serving altruism: When someone else also benefits from misconduct, the other person's interest is used to justify the action in place of one's own. For example, helping a friend to get a job overshadows the corrupt act, in this case, nepotism (Ayal, Gino, Barkan and Ariely, 2015).
- Robin Hood logic: A harm done to a stronger/powerful/richer entity is justified on the basis of a preference for equality.
- Diffusion of responsibility: When several people engage in misconduct, the chances of one individual speaking up against it are reduced. Each individual feels less responsibility for the action and does not want to limit the other person's freedom of choice or indicate their distrust (Moore and Gino, 2013).

More recent evidence from research into behavioural ethics confirms the relevance of social norms and identities for moral choices. If one person lies or cheats without facing consequences, this behaviour can spread among friends or colleagues (Gino and Bazerman, 2009). In particular, gradual divergences from an ethical behaviour tend to be more accepted by others, creating a slippery slope towards generalized dishonesty (Gino and Bazerman, 2009). A key factor in creating and strengthening behavioural norms is social identity (Akerlof and Kranton, 2011) defined as the role individuals assign to themselves in a group and the group in society. It is, therefore, important to establish ethical identity in organizations. A code of ethics can be used to emphasize ethical behaviour as a social norm.

In summary, ethical behaviour can be affected by changing the context in which people must make decisions and act: we can design contexts that help people avoid ethical risks, bring ethics to the top of people's minds, and motivate ethical behaviour. Key principles of behaviour design are:

1. Make desired behaviour easy (remove barriers that make ethical actions harder than they need to be).
2. Protection from risk (it is easy to underestimate ethical risks).
3. Design to be better (no system is perfect, and one should not let perfection be the enemy of improvement).

A final note is that too much conversation about ethics focuses on unethical behaviour, rather than on positive examples of ethical conduct. An important component of designing a more ethical organization or society is to identify organizations or societies that seem to be having some success from an ethical perspective. A general overview of good practice in designing ethical public and private organizations can be found in other modules of the present module series, in particular, [Module 11](#) (Business Integrity and Ethics), [Module 13](#) (Public Integrity and Ethics) and [Module 14](#) (Professional Ethics). Given the importance of positive examples, the present Module includes an exercise in which students choose and analyse their own case study of an ethical beacon, i.e. an organization or society that seems most ethical to them and that they might want to emulate (see Case study in the Exercises section). Lecturers are also encouraged to discuss concrete examples of organizations designing more ethical systems into everyday practices of hiring, promoting, rewarding, and monitoring. The Module also includes pre-class surveys (see Exercises section) which students could complete before taking the class, and which the lecturer could discuss during the class to illustrate important concepts of behavioural ethics.

## References

- Akerlof, George A. and Rachel E. Kranton (2011). *Identity Economics: How Our Identities Shape Our Work, Wages, and Well-Being*. Princeton, NJ: Princeton University Press.
- Ayal, Shahar, Francesca Gino, Rachel Barkan and Dan Ariely (2015). Three Principles to REVISE People's Unethical Behaviour. *Perspectives on Psychological Science*, vol. 10, pp. 738-741.
- Batson, Daniel, Elizabeth Thompson, Greg Seufferling, Heather Whitney and Jon A. Strongman (1999). Moral hypocrisy: Appearing moral to oneself without being so. *Journal of Personality and Social Psychology*, vol. 77, pp. 525-537.
- Graham, Jesse, Jonathan Haidt and Brian A. Nosek (2009). Liberals and conservatives rely on different sets of moral foundations. *Journal of Personality and Social Psychology*, vol. 96, pp. 1029-1046.
- Klein, Nadav and Nicholas Epley (2016). Maybe holier, but definitely less evil, than you: Bounded self-righteousness in social judgment. *Journal of Personality and Social Psychology*, vol. 110, pp. 660-674.
- Moore, Celia and Francesca Gino (2013). Ethically adrift: How others pull our moral compass from true North, and how we can fix it. *Research in Organizational Behaviour*, vol. 33, pp. 53-77.

OECD (2018), *Behavioural Insights for Public Integrity: Harnessing the Human Factor to Counter Corruption*, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264297067-en>.

Zhang, Ting, Pinar O. Fletcher, Francesca Gino and Max H. Bazerman (2015). Reducing bounded ethicality: How to help individuals notice and avoid unethical behaviour. *Organizational Dynamics*, vol. 44, No. 4, pp. 310-317.

## Exercises

This section contains suggestions for in-class and pre-class educational exercises, while a post-class assignment for assessing student understanding of the Module is suggested in a separate section.

The exercises in this section are most appropriate for classes of up to 50 students, where students can be easily organized into small groups in which they discuss cases or conduct activities before group representatives provide feedback to the entire class. Although it is possible to have the same small group structure in large classes comprising a few hundred students, it is more challenging and the lecturer might wish to adapt facilitation techniques to ensure sufficient time for group discussions as well as providing feedback to the entire class. The easiest way to deal with the requirement for small group discussion in a large class is to ask students to discuss the issues with the four or five students sitting close to them. Given time limitations, not all groups will be able to provide feedback in each exercise. It is recommended that the lecturer makes random selections and tries to ensure that all groups get the opportunity to provide feedback at least once during the session. If time permits, the lecturer could facilitate a discussion in plenary after each group has provided feedback.

All exercises in this section are appropriate for both graduate and undergraduate students. However, as students' prior knowledge and exposure to these issues vary widely, decisions about appropriateness of exercises should be based on their educational and social context. The lecturer is encouraged to relate and connect each exercise to the key issues of the Module.

The first three exercises are surveys that could be completed as part of the class preparation process. Asking students to complete one or more of these surveys before attending the class will be helpful for illustrating some important concepts of behavioural ethics. The lecturer could capture the students' responses before the class begins. During the class, the lecturer could use data from the surveys to illustrate important concepts. Students should be able to discuss the meaning of these results, and remember them better, when they see the underlying concepts reflected in their own behaviour. An important part of behavioural ethics is the knowledge gained from behavioural science experiments. The pre-class surveys enable students to get a glimpse of how such experiments are conducted. Each survey could take up to thirty minutes to complete. The students should answer all questions as honestly and naturally as they can. There are no right or wrong answers, so students should not waste time looking for answers on the Internet or in

other external sources. They should provide their best estimates and follow their intuitions. Their responses should remain completely confidential and anonymous. The lecturer should be the only person with access to the entire data set. Any data presented in class will be of aggregated responses, not individual responses.

The surveys are followed by one in-class exercise, in which students choose and analyse their own case study of an ethical beacon.

### Pre-class survey 1: Own versus others' behaviour

- The survey is available in the annex.

#### ➤ Lecturer guidelines

A very reliable empirical result is that people tend to be self-righteous, believing that they are more ethical than others. Recent research has revealed that this effect is nuanced, such that people tend to be especially confident that they are not as *unethical* as others. That is, people tend to believe that they are less likely to engage in unethical behaviour than others, and may or may not believe they are more likely to engage in ethical behaviour. This matters because people tend to underestimate how likely they are to engage in unethical behaviour, and hence underestimate the danger of ethical risks and temptations in their own lives.

You can demonstrate self-righteousness by simply having people predict how likely they are to engage in a series of moral and immoral behaviours compared to others in the class. This survey asks students to do so. Specifically, students are asked to predict how likely they are to engage in a series of 14 behaviours compared to others in the class. You can simply show to the class the average rating for each behaviour. You can also report the average rating for the seven moral behaviours and the seven immoral behaviours separately.

The questions in this survey are taken from Klein, Nadav and Nicholas Epley (2016). Maybe holier, but definitely less evil, than you: Bounded self-righteousness in social judgment. *Journal of Personality and Social Psychology*, vol. 110, pp. 660-674. An expanded explanation of this survey is provided in the 'Additional teaching tools' section of the Module.

### Pre-class survey 2: How much?

- The survey is available in the annex.

#### ➤ Lecturer guidelines

This survey asks students to indicate how much they would need to be paid for performing a number of different actions. This survey reflects the existence of five different basic moral foundations, first proposed and identified by Jonathan Haidt and his colleagues. Although much of the existing research focuses on differences across people in the importance of these five basic moral foundations, there also exists a large degree of commonality across people. Although individuals may value some foundations more than others, almost everyone recognizes the importance of each foundation. Lecturers can show this simply through this survey, as students will



likely say they need to be compensated more to perform the more extreme moral violation in each of these five pairs than to perform the less extreme version. Lecturers can report the class average for each item from the survey, or simply note that the average for the second act is higher across all five moral foundations than for the first act. If that proves not to be true in the results from that particular class, then the lecturers can talk about why that might be (being sure to note issues with small sample sizes as well, if they happen to have a small class).

This survey is based on experiments described in the following publications: Haidt, Jonathan (2012). *The Righteous Mind: Why Good People are Divided by Politics and Religion*. New York: Pantheon Books (see especially Chapter 7); Graham, Jesse, Jonathan Haidt and Brian A. Nosek (2009). Liberals and conservatives rely on different sets of moral foundations. *Journal of Personality and Social Psychology*, vol. 96, pp. 1029-1046. An expanded explanation of this survey is provided in the 'Additional teaching tools' section of the Module.

### Pre-class survey 3: Investment adviser demonstration

- The survey is available in the annex.

#### ➤ Lecturer guidelines

This demonstration illustrates the concept of ethical awareness by asking students to imagine that they are investment advisers who are considering four mutual funds, one of which (Fortitude Investments) is the Bernard Madoff feeder fund (the fund that was the largest Ponzi scheme in history, to date). Figure 1 shows the figure students see in the pre-class survey. S&P 500 or Standard & Poor's 500 refers to an American stock market index based on the market capitalization of 500 large companies.

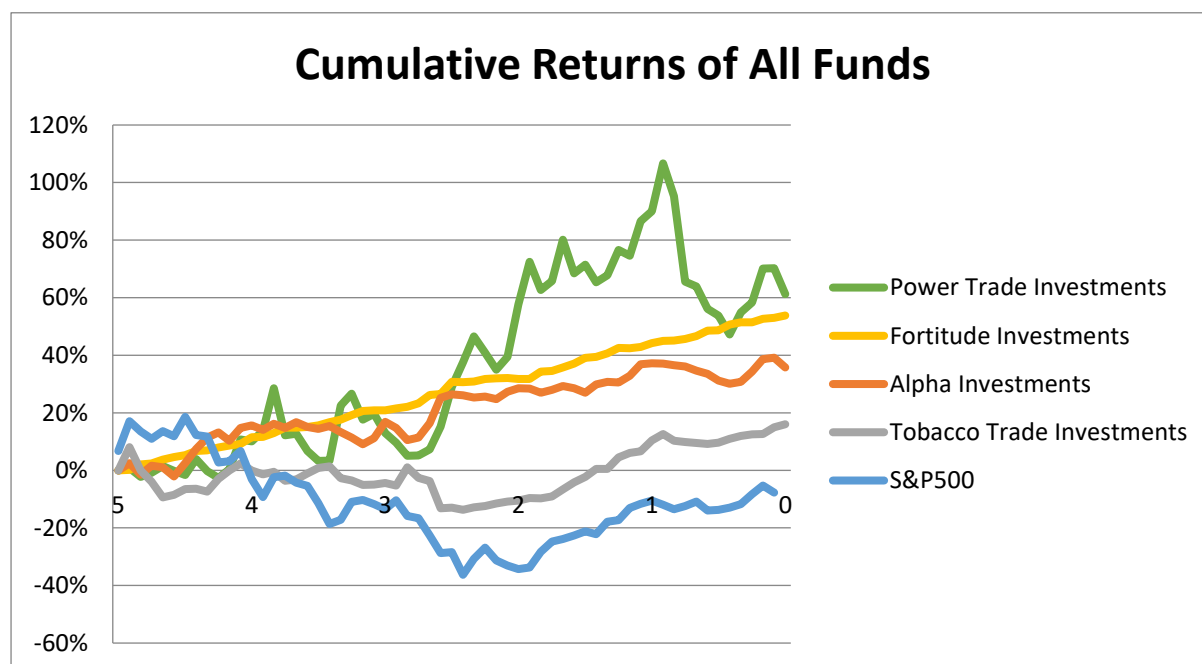


Figure 1. Investment demonstration figure used in the pre-class survey.

After viewing the performance of the four funds, students are asked to indicate which fund they would advise a client to invest in. They are also asked to indicate which fund they would invest their own money in. Students are then asked to indicate how suspicious and potentially unethical each fund seems.

Many students (often, the majority of students), will both recommend and personally invest in Fortitude Investments (what students recommend and what they invest in personally is usually similar, and students typically switch funds due to differences in risk preferences from their presumed client rather than due to ethical considerations). This is because the returns are steady, positive, and have little volatility over the period shown in the figure from the survey. However, Fortitude Investments is also a problematic fund to invest in. The results shown in the survey are actual returns on four different funds over a five-year period (in reality, from 2000-2005). Fortitude Investments is actually the Bernie Madoff Feeder Fund, which was the largest Ponzi scheme run in human history so far. The actual returns of the Madoff fund from 2000-2009 are shown in Figure 2. The period to the left of the vertical line is what students are shown of this fund in the pre-class survey.

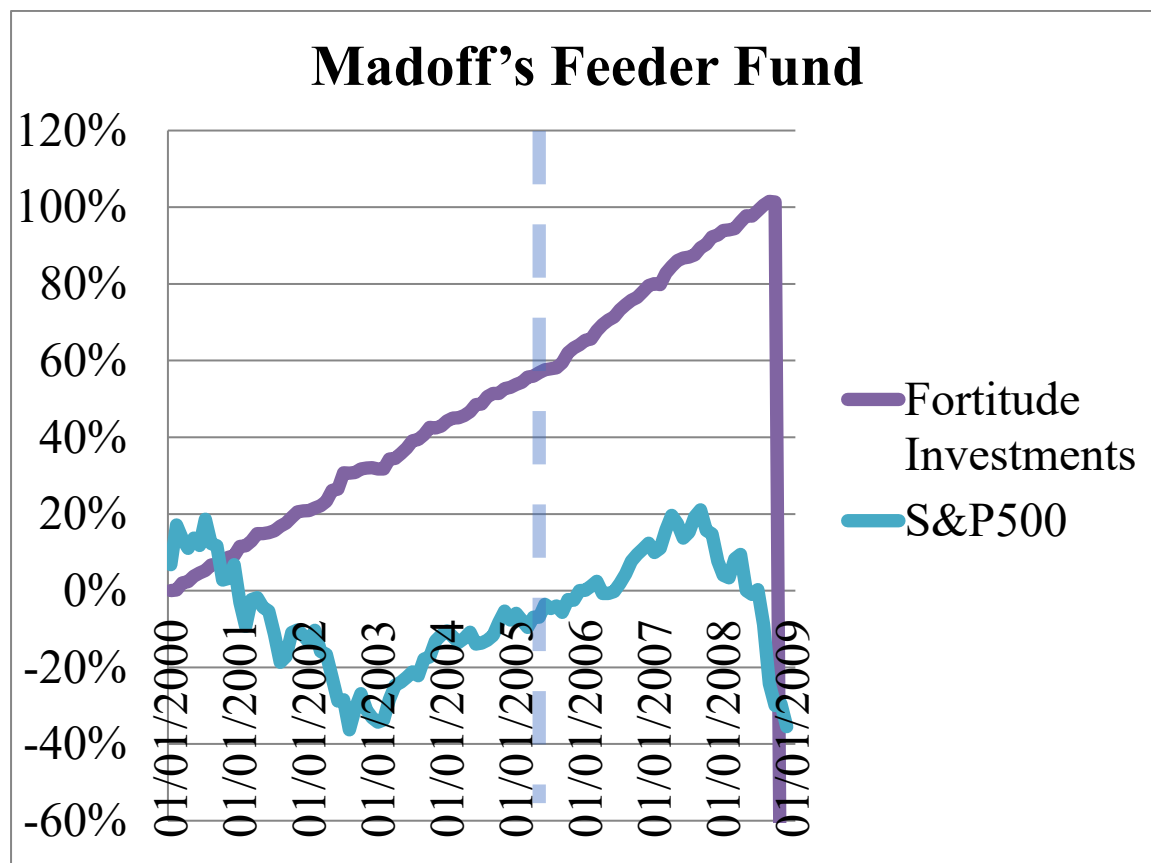


Figure 2. Actual performance of Fortitude Investments (The Madoff Feeder Fund) from 2000-2009, the point at which Madoff's fraud was discovered.

When Madoff was caught, many wondered why so many people invested in the Madoff fund. Part of the answer is that people behave ethically when ethics is considered at the very time a person is making a decision. If you are investing while thinking only about profits, returns, and minimizing volatility, without really thinking about ethics, then otherwise ethical people could end up providing unethical advice

or investing in an unethical practice themselves. This illustrates the importance of ethical awareness when making decisions.

For this demonstration, you will want to report the percentage of your students who recommend each fund to their client, and also the percentage of those who choose to invest in it themselves. You can also report the average ratings of how suspicious and unethical the Madoff fund (Fortitude) seems. Typically, after making their investment decision, students will rate Fortitude Investments (the Madoff fund) as being less ethical than the other funds and more likely to be involved in suspicious activity, on average. You can use these ratings to point out that students are able to tell the difference between funds that look ethical and those that do not, but that they might nevertheless choose to invest in an unethical fund simply because they were not thinking about these ethical considerations at the time they were making their investment decision.

This survey is based on the experiment discussed in Zhang, Ting, Pinar O. Fletcher, Francesca Gino and Max H. Bazerman others (2015). Reducing bounded ethicality: How to help individuals notice and avoid unethical behaviour. *Organizational Dynamics*, vol. 44, No. 4, pp. 310-317. An expanded explanation of this survey is provided in the 'Additional teaching tools' section of the Module.

### Case study: Ethical beacon

Ask students to think of the organization or society that seems most ethical to them. This would be an organization or society that is an ethical beacon that the students might want to emulate. Ask the students to focus specifically on what the organization or society does to turn its ethical principles into daily practices, and discuss the following questions:

- What was your ethical beacon?
- How do they lead with ethical principles?
- How do they enact principles in day-to-day practices (such as hiring, evaluation, compensation, or policies)?
- How do they respond to inevitable ethical failings?

#### ➤ Lecturer guidelines

Too much conversation about ethics focuses on unethical behaviour. An important component of designing a more ethical life, organization, or society is to identify organizations or societies that seem to be having some success. Of course, no person, organization, or society is perfect, but some consistently behave more ethically than others. The point of this exercise is to encourage students to appreciate how ethical organizations relate to their own lives, and to articulate what an ethical organization means in their own terms. Students should feel free to select any example, but the lecturer could stimulate the students by providing some well-known examples from their region.

## Possible class structure

This section contains recommendations for a teaching sequence and timing intended to achieve learning outcomes through a three-hour class. The lecturer may wish to disregard or shorten some of the segments below in order to give more time to other elements, including introduction, icebreakers, conclusion or short breaks. The structure could also be adapted for shorter or longer classes, given that the class durations vary across countries.

### Class overview (10 min)

- Introduction to the idea that behavioural ethics focuses on understanding the psychological causes of ethical and unethical behaviour. Changing ethical behaviour requires knowing its psychological causes.
- Introduction to “myths” of morality: Common intuition routinely misunderstands these causes, providing oversimplified assessments of ethical behaviour that overlook important causes, and impede our ability to change ethical behaviour.

### Four myths about morality (45 min)

- Present common intuitions about the causes of ethical behaviour that oversimplify reality.
- Present results of pre-class surveys, if used.
- Emphasize that common intuition suggests that morality is primarily a belief problem. Behavioural science demonstrates that morality is influenced by the context people are in, not just by the type of people they are, and this contextual influence is more powerful than people generally expect. Ethics can therefore be thought of as a design problem, rather than just as a belief problem.

### Ethics as a design problem (15 min)

- You can change ethical behaviour by changing the context people are in. You can change ethical behaviour by designing contexts that help people avoid ethical risks, bring ethics to the top of people’s minds, and motivate ethical behaviour.
- Key principles of behaviour design:
  1. Make desired behaviour easy (remove barriers that make ethical actions harder than they need to be)
  2. Protection from risk (it is easy to underestimate ethical risks)
  3. Design to be better (no system is perfect, and one should not let perfect be the enemy of improvement)

### Ethics, by design (25 min)

- Distinguish the language of beliefs versus design: begin by talking about how to treat ethics as a problem of design rather than simply as a problem of beliefs.
- Note that current compliance programmes often implicitly focus on beliefs and values of employees. The challenge is that companies may say the right things but not put them into practice.

- Lecturers could refer to the Enron mission statement, including a fictitious and intentionally humorous rendition that is closer to Enron's actual behaviour.
- Explain that encouraging ethics through design focuses on a person's attention, motivation, and norms.

#### Turning principles into practice (20 min)

- Present two basic steps for turning principles into practice:
  1. Articulating principles: mission statements must be memorable, actionable, and focused on unique core attributes.
  2. Enacting principles: create norms that guide action.
- Stress the two primary problems of turning principles into daily practices. The first is ethical unawareness: principles guide behaviour only when thinking about them. Second, actions guide behaviour more than articulated principles and words.
- Discuss the investment advisor demonstration from Exercise 3 as an illustration of ethical (un)awareness.

#### Case study: your ethical beacon (30 min)

- Give students five minutes to discuss their ethical beacon with the person sitting next to them.
- Discuss the following questions with the class:
  1. What was your ethical beacon?
  2. How do they lead with ethical principles?
  3. How do they enact principles in day-to-day practices (such as hiring, evaluation, compensation, or policies)?
  4. How do they respond to inevitable ethical failings?

#### Designing a more ethical organization (30 min)

- Discuss concrete examples of organizations designing more ethical systems into everyday practices of hiring, promoting, rewarding, and monitoring.

#### Conclusion (5 min)

- End with summary of the session, and a framework for remembering the most important psychological dimensions to keep in mind when designing a more ethical system.

## Core reading

This section provides a list of materials that the lecturer could ask the students to read before taking a class based on this Module.

Steven Pinker (2008). The moral instinct. *The New York Times*, 13 Jan. Available from [http://www.nytimes.com/2008/01/13/magazine/13Psychology-t.html?mcu\\_bz=3](http://www.nytimes.com/2008/01/13/magazine/13Psychology-t.html?mcu_bz=3).

Haidt, Jonathan (2012). *The Righteous Mind: Why Good People are Divided by Politics and Religion*. New York: Pantheon Books. » See especially Chapters 1-4.

Bazerman, Max H. and Ann E. Tenbrunsel (2012). *Blind Spots: Why We Fail to Do What's Right and What to Do about It*. Princeton, NJ: Princeton University Press. » See especially Chapters 1-4.

Epley, Nicholas and David Tannenbaum (in press). Treating ethics as a design problem. *Behavioral Science and Policy*.

## Advanced reading

The following readings are recommended for students interested in exploring the topics of this Module in more detail, and for lecturers teaching the Module:

Adam Waytz, James Dungan, and Liane Young (2013). The whistleblower's quandary. *The New York Times*, 2 Aug. Available from <https://www.nytimes.com/2013/08/04/opinion/sunday/the-whistle-blowers-quandary.html>. » An analysis of psychological barriers to whistle-blowing, or speaking up about unethical behaviour.

Ariely, Dan (2013). *The Honest Truth about Dishonesty: How We Lie to Everyone – Especially Ourselves*. New York: Harper Collins Publishers. » How context can affect integrity and honesty.

Bazerman, Max H. and Ann E. Tenbrunsel (2012). *Blind Spots: Why We Fail to Do What's Right and What to Do about It*. Princeton, NJ: Princeton University Press. » Additional reading in Chapters 5-8.

DeSteno, Daniel & Piercarlo Valdesolo (2011). *Out of Character: Surprising Truths about the Liar, Cheat, Sinner (and Saint) Lurking in All of Us*. New York: Three Rivers Press. » The surprising power of context to influence ethical behaviour.

Epley, Nicholas (2014). *Mindwise: How We Understand What Others Think, Believe, Feel, and Want*. New York: Vintage. » See especially Chapter 3 for an explanation of how psychological distance can encourage unethical behaviour. An excerpt from this book is available from [https://www.salon.com/2014/03/02/the\\_psychology\\_of\\_hate\\_how\\_we\\_deny\\_human\\_beings\\_their\\_humanity/](https://www.salon.com/2014/03/02/the_psychology_of_hate_how_we_deny_human_beings_their_humanity/).

Grant, Adam (2011). How customers can rally your troops. *Harvard Business Review*, June. Available from <https://hbr.org/2011/06/how-customers-can-rally-your-troops>. » An argument for using pro-social incentives of meaning and purpose to effectively motivate employees.

Haidt, Jonathan (2012). *The Righteous Mind: Why Good People are Divided by Politics and Religion*. New York: Pantheon Books. » Additional reading in Chapters 5-12.

Mclean, Bethany and Peter Elkind (2003). *The Smartest Guys in the Room: The*

*Amazing Rise and Scandalous Fall of Enron*. New York: Portfolio Trade. »  
See also the documentary about Enron's collapse, *The Smartest Guys in the Room*, recommended in the video material below.

## Student assessment

This section provides a suggestion for a post-class assignment for the purpose of assessing student understanding of the Module. Suggestions for pre-class or in-class assignments are provided in the Exercises section.

To assess the students' understanding of the Module, it is recommended to ask students to submit a written assignment of approximately 1500 words based on the class discussion on identifying an ethical beacon. Students can use the same example or select a new one based on insights gained during the module delivery.

They should provide written answers to the following questions:

1. What was your ethical beacon?
2. How do they lead with ethical principles?
3. How do they enact principles in day-to-day practices (such as hiring, evaluation, compensation, or policies)?
4. How do they respond to inevitable ethical failings?

## Additional teaching tools

This section includes links to relevant teaching aides such as PowerPoint slides and video material that could help the lecturer teach the issues covered by the Module. Lecturers can adapt the slides to their needs.

### PowerPoint presentation

- [Module 8 Presentation on Behavioural Ethics](#)

### Video material

Many documentaries and podcasts can serve as excellent case studies for discussion that can be added to a longer version of this Module. Since case studies are often anecdotal they are not always helpful within a behavioural science context. However, the following are excellent companions to this Module:

- *Ponzi Supernova*. Episode from Radiolab, a programme from National Public Radio. Available from <http://www.radiolab.org/story/radiolab-presents-ponzi-supernova/>. This podcast includes interviews with Bernie Madoff, and serves as an excellent case study in ethical awareness.
- *Enron: The Smartest Guys in the Room*. This video documentary on Enron is an excellent case study in how to design an *unethical* organization. Available from <https://freedocumentaries.org/documentary/enron-the-smartest-guys-in-the-room>.
- *Inside Job*. This is an excellent documentary on the financial crisis of 2008-

2009. It can be used to discuss conflicts of interest, and problems with financial incentives that encourage unethical action. It currently needs to be purchased in order to be viewed. Information available from <http://www.imdb.com/title/tt1645089/>.

## Guidelines to develop a stand-alone course

This Module provides an outline for a three-hour class, but there is potential to develop its topics further into a stand-alone course. The scope and structure of such a course will be determined by the specific needs of each context, but a possible structure is presented here as a suggestion.

Session	Topic	Brief description
1	Ethics, by design	Introduction to course, raising the question of whether the three senses of a “good life” are aligned with each other or are in competition. Does doing good lead to doing well in business (does ethics pay?). The first half of this lecture presents the evidence of how ethics is positively related to business success in the long run (not necessarily in the short run). It makes the case that the primary practical argument for ethics in business (and society) is for sustainability. Ethical systems last whereas unethical and corrupt systems, for a variety of reasons, succeed only in the very short term. The second half of this lecture presents the four myths of morality and introduces ethics as a design problem, rather than as a belief problem.
2	Ethical awareness	Explains how good people can do bad things when ethics are not on the top of their minds. One key to encouraging ethical behaviour is to make sure that people’s ethical beliefs are chronically salient.
3	Conflicted interests	Describes the psychological processes that operate in conflicts of interests. These processes operate outside of conscious awareness, and so people are not aware of how their own judgment is being corrupted. Discusses research demonstrating that disclosure does not eliminate problems with conflicts of interest. Only avoiding the conflicts in the first place eliminates the problems they cause.
4	Moral courage: speaking truth to	Why do people who observe unethical behaviour fail to speak up and call it out? This



Session	Topic	Brief description
	power	lecture discusses the psychology of whistle-blowing and describes what insights it provides for enabling people to report unethical behaviour when they see it.
5	Incentives	Aligning financial incentives with ethical goals is an obvious and intuitive solution to some unethical behaviour, but it is incomplete. Pro-social incentives can also be introduced into one's personal life, in organizations, and in societies to encourage ethical behaviour directly. The benefit of using pro-social incentives is that they are cheap, and surprisingly effective.
6	Power, status, and ethics	Describes behavioural science research about the effect of power and status on ethical behaviour. Power does not corrupt, as the famous quote from John Dalberg-Acton goes, but rather it reveals a person's motives and intentions. Status, however, seems to distance people from others, and in so doing can increase unethical behaviour. Focuses on how to guard organizations and societies from the ethical risks that can arise from both power and status.
7	Ethical cultures, by design	Describes the power of social norms to influence behaviour, meaning that social norms are also a key component of designing an ethical life, organization, or society. Tone at the top is far from sufficient. This session then puts pieces of the course discussed to this point together into understanding how one might design an ethical organization, focusing on the key levers of behavioural change (hiring, promoting, rewarding, and monitoring). Students are asked to think of an ethical beacon (a company that they perceive to be relatively ethical), and these examples (along with others from the instructor) are discussed.
8	Reputation	Ethical behaviour is often rewarded and punished through the reputation a person, organization, or society forms. This lecture focuses on how reputations are formed, how morality is one of the two key components of reputational inferences, and addresses how to manage one's reputation when a moral failing occurs.
9	Hedonics	This lecture addresses whether being good (i.e., ethical) is aligned with feeling good. Is

Session	Topic	Brief description
		<p>being ethical aligned with being happy? Describes surprising research from behavioural science about how doing good for others increases well-being more than people expect, and explains why doing good can lead to feeling good (which also identifies when doing good might NOT lead to feeling good). Students do random acts of kindness, and write gratitude letters, as class exercises to experience the effects for themselves.</p>
10	Values, habits, and character	<p>The key to creating character is behaving routinely in ways that are consistent with your values. This lecture describes how to design contexts in ways that create good habits, describes how long this is likely to take, and explains how this can be used to build character. Creating stable contexts that encourage ethical behaviour can create a more ethical personality (or character).</p>

## Annex: Pre-class surveys

### Pre-class survey 1: own versus others' behaviour

The questions in this survey are taken from Klein, Nadav and Nicholas Epley (2016). Maybe holier, but definitely less evil, than you: Bounded self-righteousness in social judgment. *Journal of Personality and Social Psychology*, vol. 110, pp. 660-674.

This survey refers to a number of behaviours in which people might engage. Please read each of these behaviours carefully and then give your judgment about whether you are more or less likely to engage in each behaviour compared to the average student in the class.

For example, one behaviour might be: "arrive to class on time". Your task is to state whether you believe that you are more likely to arrive to class on time than the average student in the class, or whether the average student in the class is more likely to arrive on time than you, by circling the number that best corresponds to your evaluation on the scale below.

-3	-2	-1	0	1	2	3
Others much more likely to do this than me	Others more likely to do this than me	Others slightly more likely to do this than me	No more or less likely to do this than others	I am slightly more likely to do this than others.	I am more likely to do this than others.	I am much more likely to do this than others.

Please evaluate each of the following behaviours carefully. Do you believe that you are more likely to do this than other people or that other people are more likely to do this than you? Please circle the number that best corresponds to your estimate.

Behaviour	-3	-2	-1	0	1	2	3
Stop to help someone with a flat tire							
Donate blood when asked to do so							
Return a lost wallet you found to the police, leaving the significant amount of cash inside of it untouched							
Spend a Sunday volunteering in a soup kitchen							
Tell a professor that he or she had incorrectly marked your final exam and gave you too high a grade							
Return \$20 you had been incorrectly given as change after making a small purchase							
Buy food for a homeless person standing outside of a grocery store							
Take advantage of a person who does not know the value of a product and sell it to them at an inflated price							
Rush to take the last seat on a crowded bus ahead of an elderly lady							
Find a \$20 tip left for the waiter in a restaurant and take the money for yourself							
Crash into a parked car and drive off without leaving a note							
Lie to your co-workers to increase the chances that you will get a promotion rather than them							
Offer your help in the future while knowing that you do not intend to fulfil the promise when the time comes							
Engage in an extra-marital affair							

## Pre-class survey 2: how much?

This survey is based on experiments described in the following publications: Haidt, Jonathan (2012). *The Righteous Mind: Why Good People are Divided by Politics and Religion*. New York: Pantheon Books (see especially Chapter 7); Graham, Jesse, Jonathan Haidt and Brian A. Nosek (2009). Liberals and conservatives rely on different sets of moral foundations. *Journal of Personality and Social Psychology*, vol. 96, pp. 1029-1046.

How much would someone have to pay you to perform each of the following actions? Assume that you'd be paid secretly and that there would be no social, legal, or other harmful consequences to you afterward. Answer by typing a number from 0 to 4 under each action, where:

- 0 = \$0, I'd do it for free
- 1 = \$100
- 2 = \$10,000
- 3 = \$1,000,000
- 4 = I would not do this for any amount of money

Write in 0, 1, 2, 3, or 4 next to each action to indicate how much you need to be paid to perform each action.

1a. Stick a pin into your palm.

1b. Stick a pin into the palm of a child you don't know.

Write in 0, 1, 2, 3, or 4 next to each action to indicate how much you need to be paid to perform each action.

2a. Accept a plasma-screen television that a friend of yours wants to give you. You know that the friend got the TV a year ago when the company that made it sent it to your friend, by mistake and at no charge.

2b. Accept a plasma-screen television that a friend of yours wants to give you. You know that your friend bought the TV a year ago from a thief who had stolen it from a wealthy family.

	<p>Write in 0, 1, 2, 3, or 4 next to each action to indicate how much you need to be paid to perform each action.</p>
<p>3a. Say something critical about your nation (which you believe to be true) while calling in, anonymously, to a talk-radio show in your nation.</p>	
<p>3b. Say something critical about your nation (which you believe to be true) while calling in, anonymously, to a talk-radio show in a foreign nation.</p>	
	<p>Write in 0, 1, 2, 3, or 4 next to each action to indicate how much you need to be paid to perform each action.</p>
<p>4a. Slap a male friend in the face (with his permission) as part of a comedy skit.</p>	
<p>4b. Slap your father in the face (with his permission) as part of a comedy skit.</p>	

Write in 0, 1, 2, 3, or 4 next to each action to indicate how much you need to be paid to perform each action.

5a. Attend a short avant-garde play in which the actors act like fools for 30 minutes, including failing to solve simple problems and falling down repeatedly on stage.

5b. Attend a short avant-garde play in which the actors act like animals for 30 minutes, including crawling around naked and grunting like chimpanzees.



### Pre-class survey 3: investment decisions simulation

This survey is based on the experiment discussed in Zhang, Ting, Pinar O. Fletcher, Francesca Gino and Max H. Bazerman (2015). Reducing bounded ethicality: How to help individuals notice and avoid unethical behaviour. *Organizational Dynamics*, vol. 44, No. 4, pp. 310-317.

#### *Role Description*

Your role in this simulation is to be an investment advisor. As an investment adviser, your job entails managing funds and making investment recommendations for your clients. You currently manage a portfolio of \$10,000,000.

Imagine that a new client has come to you for your advice on an investment decision. Your client is a professional that has a solid income and has recently received a \$75,000 bonus, which he intends to put in a portfolio of investments for the next two years, when the returns will be cashed. Your client does not have any investments currently.

The client has sent you the following note: "I have recently received \$75,000, and would ideally like to invest in one of the four funds that I am considering. I am particularly interested in Fortitude Investments which has been performing very well and consistently above market. Which fund would you recommend?"

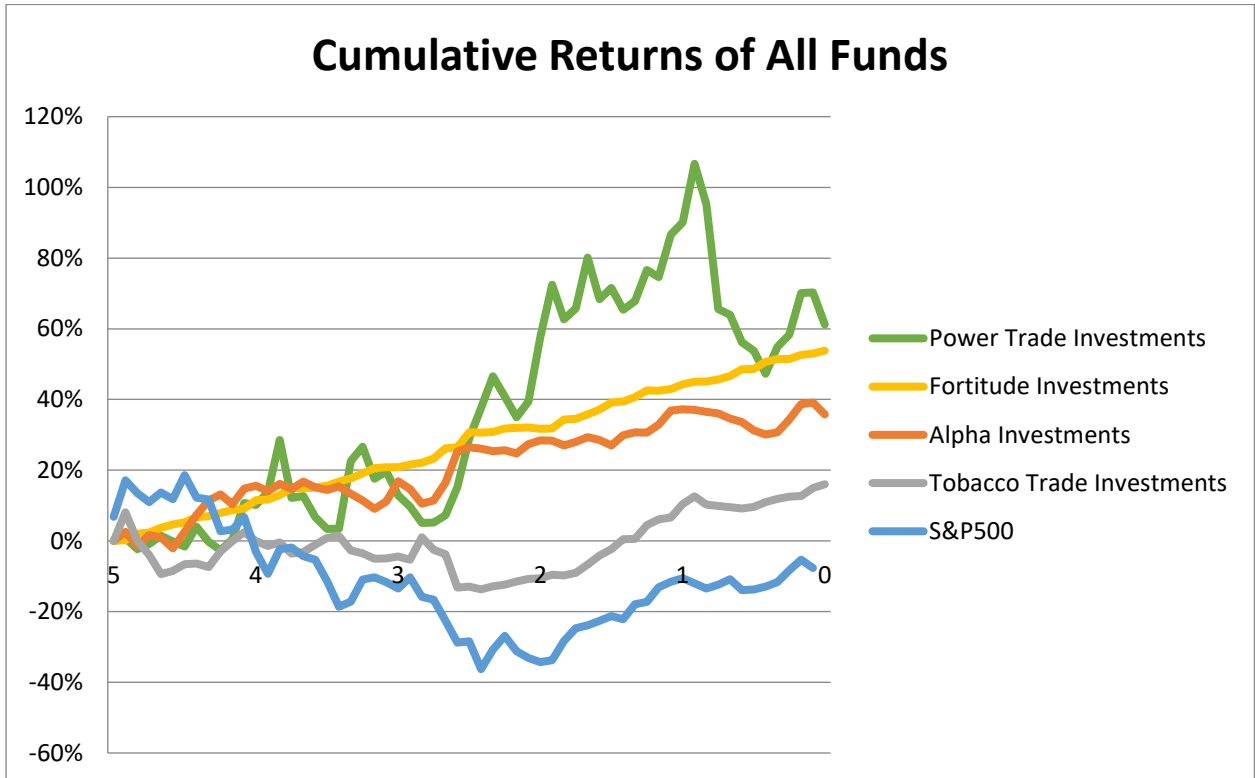
#### *Fund Information*

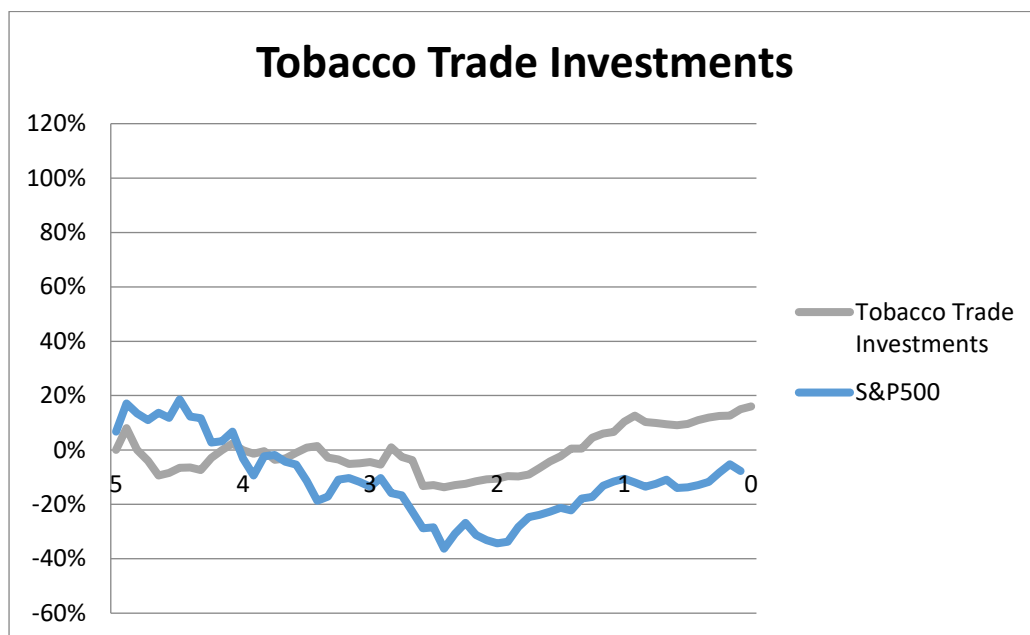
The four funds you are considering for your client are shown in the following graphs, with the first graph showing their cumulative returns. The data provided are real, although the provided fund names and dates are fictitious. The graphs are followed by a questionnaire you should complete before class.

#### *Definition of Terms*

- **S&P 500:** The Standard & Poor's 500 refers to an American stock market index based on the market capitalizations of 500 large companies.
- **Annual Return:** The percentage change in price of the fund over the course of the year. For example, if you invest \$10 in a company and that investment is worth \$15 a year from now your annual return would be 50% (i.e.  $(15-10)/10$ ).
- **Volatility:** This is a measure of how much and how quickly the price of an investment changes within a given period of time, often used as a measure of risk.
- **Risk-Adjusted Return:** This is a measure that explains how much you would get beyond investing in the S&P 500 for the amount of risk that is associated with the fund. The greater a portfolio's risk-adjusted return, the better the fund in terms of the amount of returns you receive, factoring in the amount of risk that you are taking to get those excess returns.

$$\text{Risk adjusted return} = \frac{\text{Returns beyond S\&P 500}}{\text{Volatility}}$$





Risk-adjusted return\*: 0.42  
 Five-year cumulative returns: 16.02%  
 Average monthly returns: 0.40%  
 Volatility: 2.99%  
 S&P 500 five-year cumulative returns: -7.69%  
 S&P 500 average monthly returns: -0.25%  
 S&P 500 volatility: 4.68%  
 \*With S&P 500 as benchmark

**Office location:**

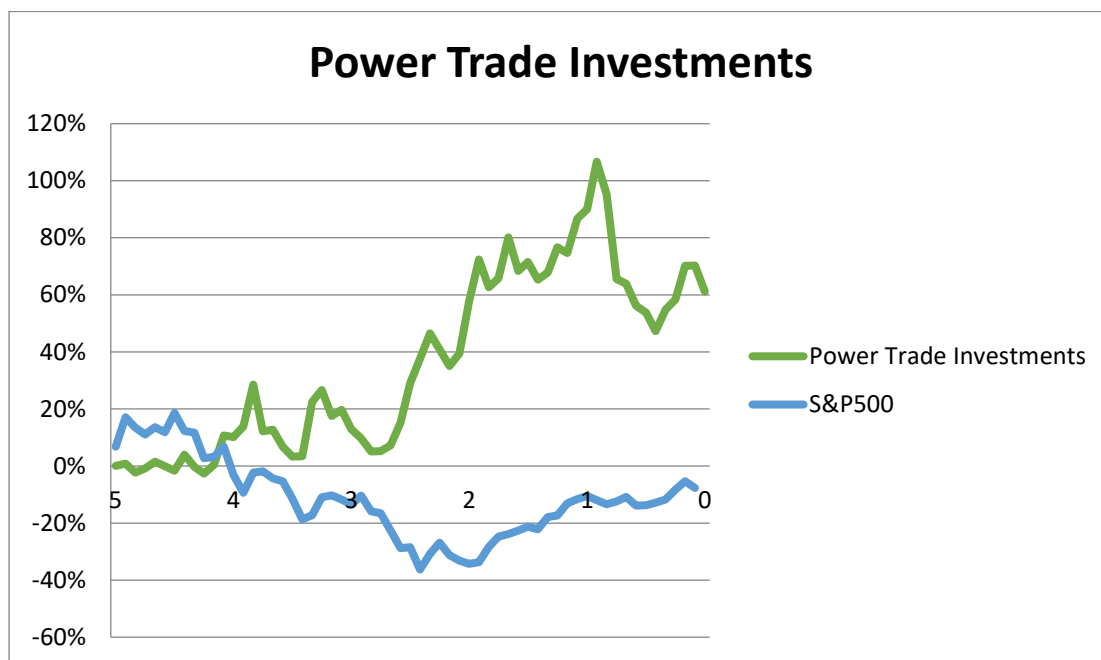
Our offices are located at:  
 Ten Corporate Street  
 Rye, NY 10580

**Mission statement:** To earn a superior risk-adjusted return for our investors over the long-term by providing value-added products. By earning returns for our investors, we will be earning returns for all our stakeholders.

**Investment strategy:** We have initiated positions in companies which operate in fairly good sectors but have been sold down over the past year and are now trading at attractive valuations. The main sector is in the tobacco industry. As long as their cash-flow is positive, balance sheet is strong and dividends are paid, we are happy to be investors in such companies.

**How do investors get into fund:** Our investors typically contact hedge fund brokers.

**Information on how Tobacco Investments is audited:** Tobacco Trade Fund uses the services of DP Associates LLP. DP Associates is a well-respected auditing firm that has been auditing clients for the last 51 years—it has 48 clients across the U.S.



Risk-adjusted return: 0.46

Five-year cumulative returns: 61.20%

Average monthly returns: 0.93%

Volatility: 6.22%

S&P 500 five-year cumulative returns: -7.69%

S&P 500 average monthly returns: -0.25%

S&P 500 volatility: 4.68%

#### Office location:

1 New York Plaza, 54th Floor  
New York, NY 10004

**Mission statement:** Our mission is to compete in every market in the world, combining insight and technology to profit and make the markets more efficient; to recruit the most capable people and train them to the highest standard; and to foster openness, communication and idea sharing.

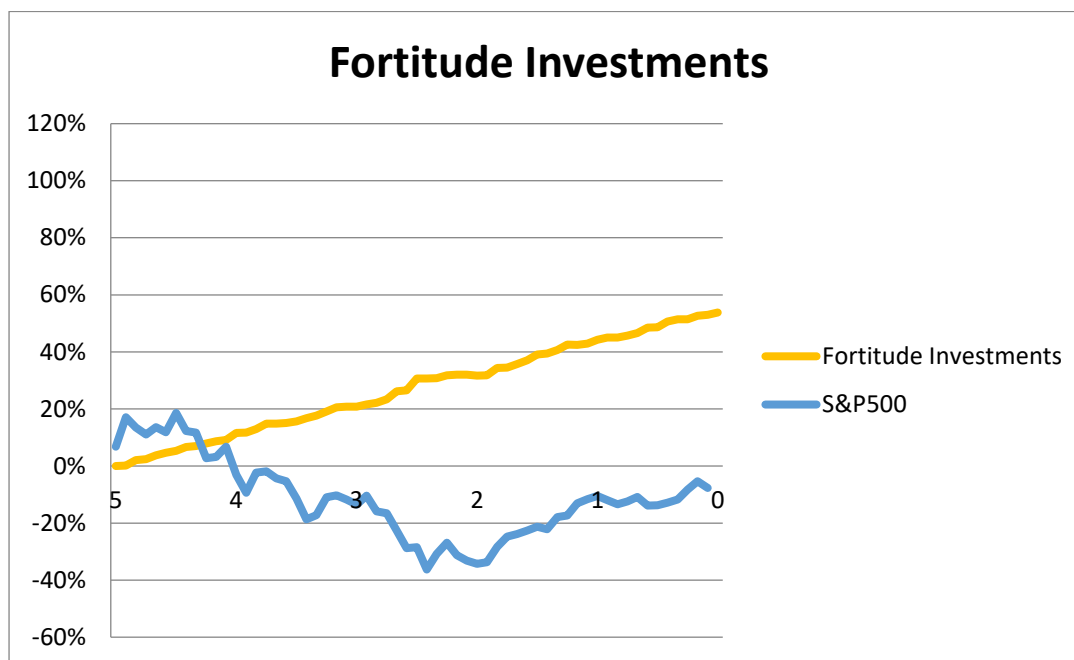
**Investment strategy:** Our trend-following portfolio consists of more than 200 funds in different market sectors. Markets are selected to represent a geographically balanced portfolio across different asset classes, with liquidity being the main focus. If the target exposure changes, open positions are reshuffled in order to keep trade risk constant.

#### How do investors get into funding:

Investors typically find us through hedge fund databases, and have their brokers contact our managers.

#### Information on how Power Trade Investments is audited:

Power Trade has used P&F Audit Company for auditing purposes. P&F Audit Company is a global auditing firm that has been serving 124 clients for the last 72 years and has 20 offices globally.



Risk-adjusted Return: 0.75

Five-year cumulative returns: 53.81%

Average monthly returns: 0.75%

Volatility: 0.71%

S&P 500 five-year cumulative returns: -7.69%

S&P 500 average monthly returns: -0.25%

S&P 500 volatility: 4.68%

#### Office location:

523 Park Avenue

New York, New York 10022

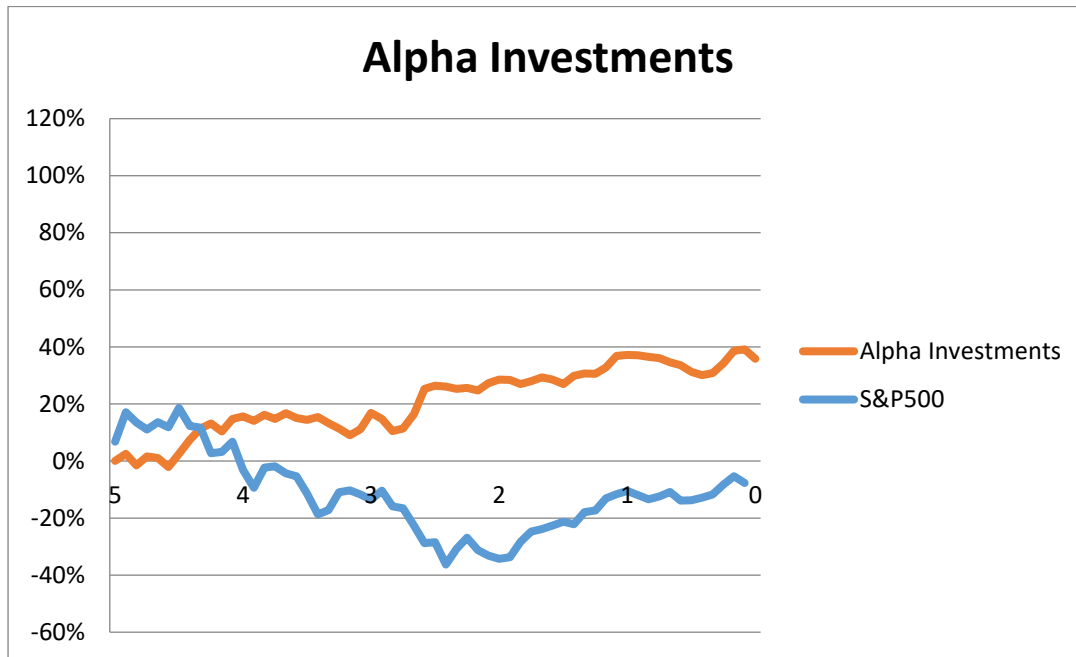
**Mission statement:** Our success is driven by three fundamental ideas: 1) Seek and hire the most brilliant and talented people we can find; 2) Reward those people based on merit; 3) Remain on the leading edge of innovation in investing.

**Investment strategy:** Because our investment strategy is private, we cannot disclose any information at this time.

**How do investors get into funding:** We are selective in our investors and make sure that these investments are in line with their individual strategies. As a result, typical investors we do not know cannot invest with us. However, as an adviser, we will open these investments to your clients, especially those who are interested in investing their money with us long-term.

#### Information on how Fortitude Investments is audited:

Fortitude uses SA & Associates, CPA for their auditing purposes. SA & Associates was established 15 years ago. The chief auditor was formerly a VP at Fortitude Investments.



Risk-adjusted return: 0.54  
 Five-year cumulative returns: 36.81%  
 Average monthly returns: 0.61%  
 Volatility: 2.37%  
 S&P 500 five-year cumulative returns: -7.69%  
 S&P 500 average monthly returns: -0.25%  
 S&P 500 volatility: 4.68%

**Office location:**

400 W Chicago Ave. Suite 734  
 Chicago, IL 60654

**Mission statement:** We seek to deliver superior investment performance for our clients and to develop a broad array of superior investment products.

**Investment Strategy:** We use strategies that hedge out most market risk by taking offsetting positions, often in different securities of the same issuer. For example, we find the optimal combination of bonds and equity to create stable, low risk investments.

**How do investors get into funding:** Our investors contact us via their hedge fund consultants or brokers.

**Information on how Alpha Investments is audited:** Alpha utilizes the auditing services of RK Partners CPA Co. RK Partners is a fast-growing auditing firm that began serving international clients 7 years ago and has since developed a client base of 12 firms in Europe and 30 firms in the US.

### Questions

1. Which fund would you recommend to your client? (Circle one)

- Tobacco Trade Fund
- Power Trade Investments
- Fortitude Investments
- Alpha Investments

2. Please explain why you made this selection for your client.

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3. Which fund would you select for your own portfolio? (Circle one)

- Tobacco Trade Fund
- Power Trade Investments
- Fortitude Investments
- Alpha Investments

4. Please explain why you chose this fund for yourself.

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5. Please rate how suspicious you think each fund is [1= not at all; 7= extremely].

Tobacco Trade Fund	1	2	3	4	5	6	7
Power Trade Investments	1	2	3	4	5	6	7
Fortitude Investments	1	2	3	4	5	6	7
Alpha Investments	1	2	3	4	5	6	7

6. Please rate how unethical you think each of these funds is: [1 = not at all; 7 = extremely].

Tobacco Trade Fund	1	2	3	4	5	6	7
Power Trade Investments	1	2	3	4	5	6	7
Fortitude Investments	1	2	3	4	5	6	7
Alpha Investments	1	2	3	4	5	6	7

1. If Tobacco Trade Investments was suspicious or seemed unethical to you, please indicate why.

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2. If Power Trade Investments was suspicious or seemed unethical to you, please indicate why.

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3. If Fortitude Investments was suspicious or seemed unethical to you, please indicate why.



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4. If Alpha Investments was suspicious or seemed unethical to you, please indicate why.

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