# Managing Ethics in the Workplace: The Challenge of Regulating Employees Who Believe Themselves to Be “Good” Employees

In the last two decades, we have witnessed many large-scale corporate scandals, such as Worldcom’s accounting fraud, Citibank’s near-collapse, and Enron’s bankruptcy and the de facto dissolution of Arthur Andersen, in which pervasive rule violations by both managers and lower-level employees led to large-scale ethical meltdowns. These and other scandals have increased the salience and urgency of ways to prevent corporate corruption.

The typical response from policy makers to these scandals has been to propose reforms to address various corporate transgressions. These proposals establish requirements for more accurate reporting, criminalize financial misreporting, create independent monitoring bodies, and improve corporate governance practices. By and large, they aim to prevent gross and blatant violations of the law, but ignore the more banal, ordinary acts of unethicality that are practiced far more commonly in organizations. Numerous studies have documented the prevalence of practices such as stealing office supplies, inflating business expenditures reports, and engaging in behaviors that raise conflicts of interest. Those violations are more harmful to the organization because they reduce trust and alter prevailing behavioral norms: their aggregated effect can be dramatic.

Behavioral ethics (BE) research suggests that these types of misconduct occur not because people are unethical or deliberately choose to act unethically, but because they fail to understand that their behavior is indeed unethical and can have harmful consequences. Studies show that employees have a “blind spot” that prevents them from seeing the ethical and legal meaning of their own behavior. Research also suggests that much banal, unethical behavior is triggered by particular situations, rather than being the result of a deliberative decision made by an unethical employee.[[1]](#footnote-1) For example, unethical behavior is more likely to occur when norms about how people should behave are ambiguous (e.g., their behavior may seem to be reasonable or in the best interest of the firm); when the conflict of interest is subtle (e.g., when it is based on friendship and familiarity, rather than money); when the victim is not identified, as is the case of securities fraud where the effect is on public shareholders; when performance goals are unrealistic; or when the decision is being made not by individuals, but by groups,[[2]](#footnote-2) such as in corporate board decision making in contexts that are biased toward the primary shareholder. In such situations, BE research suggests that an especially large proportion of the population (in some studies more than 50%) may behave unethically, because their ability to interpret the ethicality of their own behavior is highly limited.

Thus, sanctioning rule breaking and increasing transparency in decision-making processes within organizations are only part of the answer to preventing corporate corruption: such reforms alone will not prevent most employees from acting unethically, because most do not see their behavior as being unethical. A good example of the mismatch between proposed solutions to stop misconduct and people’s subsequent behavior is found when employees are asked to disclose conflicts of interest.

If one assumes that an individual’s ethical decision making is driven by calculative thinking, then one might expect that greater transparency will lead that person to behave more ethically. Yet the exact opposite occurs in many contexts. The fact that people disclose their conflicts of interest seems to give them more license to behave unethically: it makes the unethicality of the situation more subtle and justifiable. In such cases, many people feel that, once the other party knows about the conflict of interest, giving that party biased advice is less problematic, because it already knows that the advice is colored by self-interest.[[3]](#footnote-3)

Rooting out employee misconduct is also hindered by corporate leaders’ emphasis on finding the most egregious, visible wrongdoers. It is easier to punish wrongdoing when the person accused of it is clearly “guilty,” and often such “bad” employees are the focus of legal and disciplinary efforts. However, this diverts attention and resources from preventing the more banal and common ethical violations, whose impact ultimately dwarfs that of the “smoking guns.”

In recent years, there has been a push to adopt behavioral nudges, such as developing forms about conduct for employees to sign[[4]](#footnote-4) and issuing timely reminders or notifications about potential unethical blind spots, as a way to increase people’s ethical awareness and prevent unconscious misconduct. While these have shown some promise in changing people’s behavior, their effectiveness is also limited. Over a period of time, many of these subtle interventions are expected to lose some of their power.

If organizations want to do a better job at preventing misconduct, they need to adopt a two-stage approach. The first stage focuses on increasing people’s awareness of the illegality and unethicality of their behavior by ensuring that, when they are in situations that are expected to be problematic, employees will be reminded of the actual meaning of the behavior. In the second stage, organizations should ensure that their employees clearly recognize and understand that misconduct will be penalized.

As suggested earlier, current BE research allows us to recognize the situational factors that contribute to the prevalence of unaware ethicality. In such contexts, softer enforcement approaches that focus on awareness are more effective in preventing misconduct than formal sanctions; hence monitoring should only function in the background to make sure that employees are taking seriously the reminders and nudges by the organization. In contrast, in the situation in which the expected unethical behavior is likely to be done deliberately, formal sanctions are more suitable.

By adopting a combined and tailored approach that uses a set of regulatory tools focusing both on employees’ motivation and awareness, managers can do a better job of preventing the kind of misbehavior that leads to corporate scandals.

1. den Nieuwenboer, N.A., Vieira da Cunha, J., & Treviño, L.K. Middle Managers and Corruptive Routine Translation: The Social Production of Deceptive Performance. Organization Science, **28**, 781-964 (2017). [↑](#footnote-ref-1)
2. Kocher et al. 2017 [↑](#footnote-ref-2)
3. Cain, D.M., Loewenstein, G. and Moore, D.A., 2005. The dirt on coming clean: Perverse effects of disclosing conflicts of interest. *The Journal of Legal Studies*, *34*(1), pp.1-25. [↑](#footnote-ref-3)
4. Shu, Lisa L., Nina Mazar, Francesca Gino, Dan Ariely, and Max H. Bazerman. *When to sign on the dotted line?: Signing first makes ethics salient and decreases dishonest self-reports*. Harvard Business School, 2011. [↑](#footnote-ref-4)