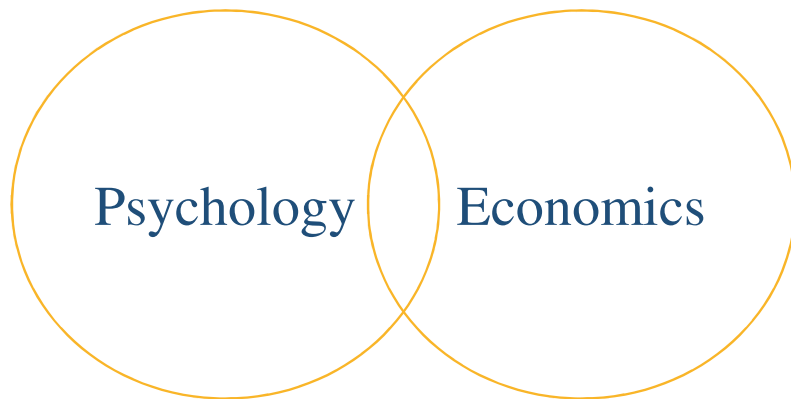


Using Behavioural Economics to Promote Honesty

Franziska Tausch, APSAC Conference 2017

- What is behavioural economics?



- People do not act purely rational and self-interested

- Rational cost benefit analysis (Becker, 1974)
 - What are my benefits?
 - What is the likelihood that my misbehaviour will be detected?
 - What will happen if my misbehaviour is detected?

→ Increase surveillance and punishment
- Moral aversion to dishonesty (e.g., Abeler et al., 2016)

Perceive oneself
as honest

Be perceived as
honest by others

- How to behave dishonestly and not feel too bad about it?

What strategies are frequently used to justify dishonest behaviour?

- Neutralisation
- Normalisation
- Self-serving interpretation
-

Neutralisation

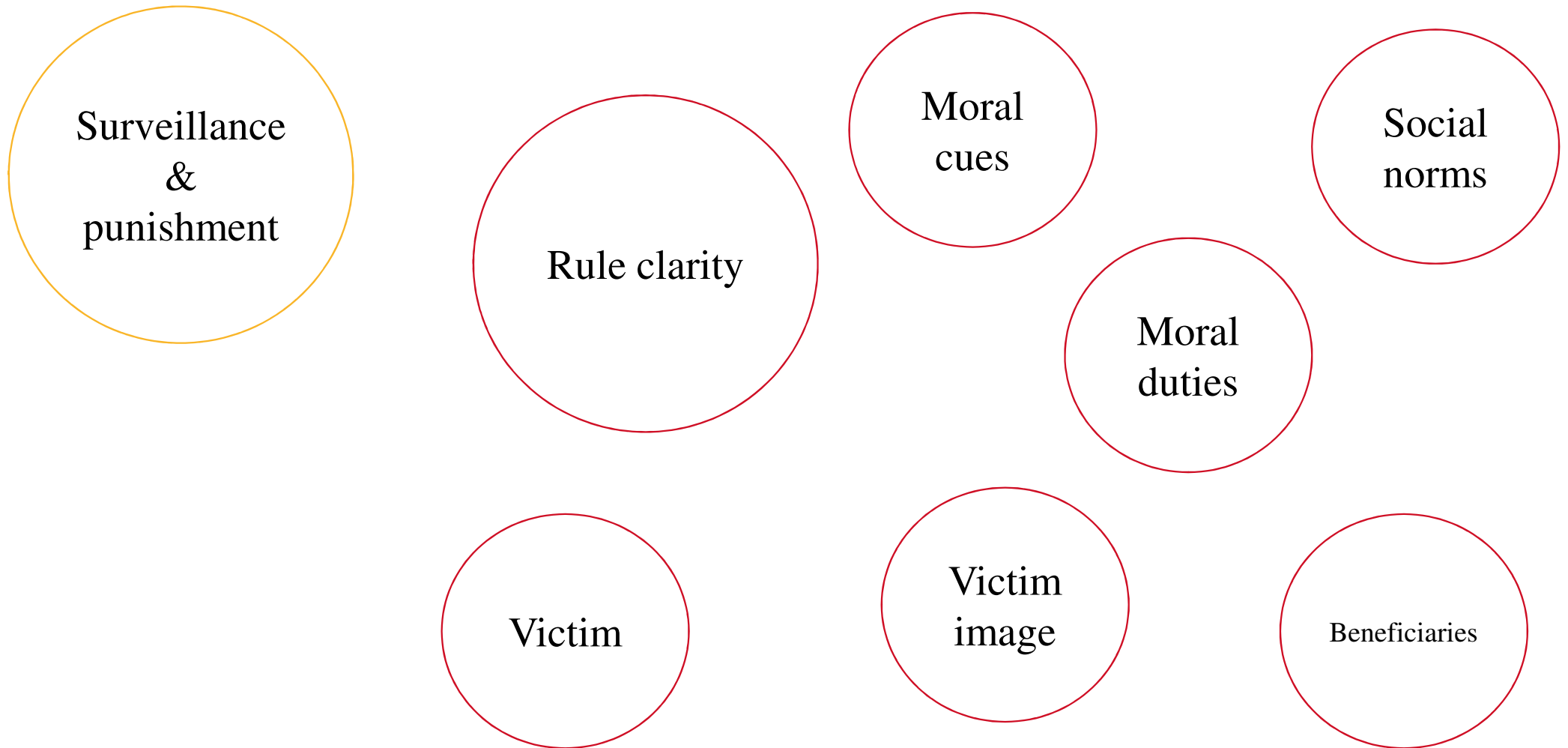
- Extenuate the circumstances (e.g., Sykes and Matza, 1957; Koeneke et al., 2015)
 - No great harmful consequences
 - No true victim
- Victim is an institution that can afford to be harmed
- Victim deserves to be harmed due to previous bad deeds
- Correction of inequalities or unfairness between, e.g., a wealthy institution and its poorer customers/employees (see also, e.g., Shalvi et al., 2015; Belle and Cantarelli, 2016; Fukukawa, 2002)

Normalisation

- Reference to the social norm or perceived social acceptance among peers (e.g. Belle and Cantarelli, 2017; Fukukawa, 2002)
- Insurance fraud and tax evasion perceived as more acceptable if it is widespread among peers (e.g., Tennyson, 1997; Frey and Torgler, 2007)
- Corruptive behaviour perceived as more acceptable if observed among co-workers or supervisors

Self-serving interpretation

- When rules/norms/ethical codes are not clearly defined, people are more likely to violate them (e.g. Shalvi et al., 2015)
- Ambiguity introduces ‘moral wriggle room’
 - Self-serving bias in interpretation
- Rules are often incomprehensible and provided together with lots of other information
 - Perception that rule understanding and compliance can not be too important (e.g. Lambsdorff, 2015)
 - Cognitive overload may inhibit understanding and ambiguity is retained



Rule clarity (Shalvi et al., 2015)

- Avoid moral wriggle room from ambiguity
- Don't leave room for interpretation
- Clarify ethical code and provide examples
- Emphasize importance of compliance

Moral cues

- Recalling the Ten Commandments reduces dishonesty (Mazar et al., 2008)
- Signing an honour code reduces dishonesty (e.g., Mazar et al., 2008; Chou, 2015a)
 - Increase in social self-presence
 - Signing at top of document better than at the end (Shu et al., 2012)
 - E-signatures (PINs, check box, typed name) less effective (Chou, 2015a; Chou, 2015b)

Moral duties

- Signing an honour code for each decision at risk to be fraudulent may not be feasible
- Reminding of explicit moral duties (e.g., “serve the public”, “provide honest information in insurance underwriting”)

Social norms

- Cheating decisions are influenced by beliefs about other people's behaviour (Gino et al., 2009)
- Reminders that most citizens correctly report their tax leads to increase in tax remittances from households at risk of underreporting (Bott et al., 2014)
- Attention:
 - Crucial whether observed person part of in- or out-group (Gino et al., 2009)
 - How do people interpret information: 80% pay their taxes - means 20% don't?

Victim

- Make potential offenders aware of the victims of their misbehaviour
- Identify individuals in peer group instead of pointing at faceless corporation
 - Insurance fraud: leads to increase in premiums
 - Tax fraud: leads to inability to provide specific public goods or financial safety nets
 - Corrupt public servants: decreases the public's trust in the government
- Make case study out of hypothetical individual (Gino et al., 2010; Shu et al., 2011; Yam and Reynolds, 2016)

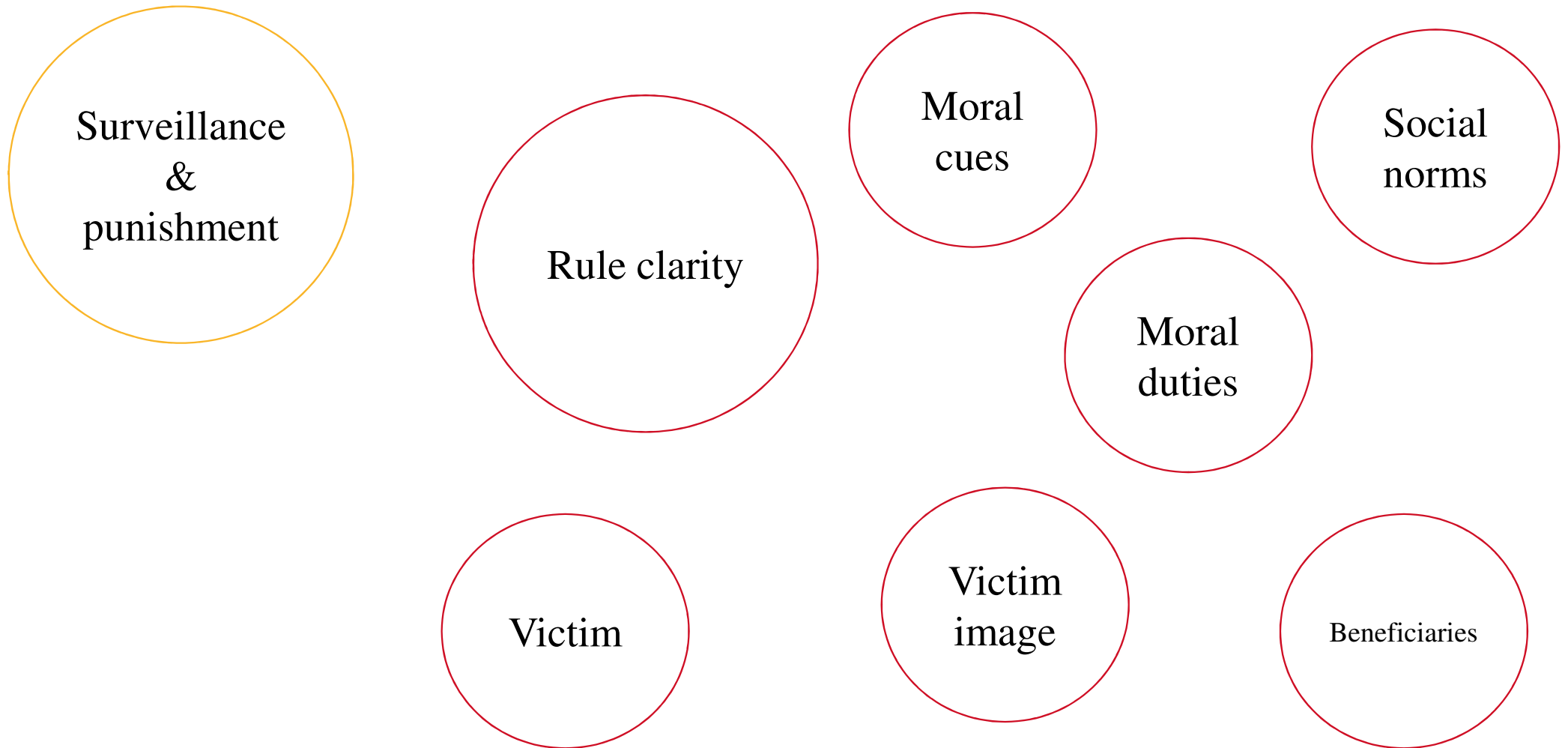
Victim image

- Frequent provision of information on social engagement/good deeds of potential victim
- Avoid resentment, e.g., provide transparent insurance contracts/clear rules that don't leave room for misunderstanding (Koeneke et al., 2015)
 - People don't feel unfairly treated
 - No retaliation with dishonesty

Beneficiaries

- Outline benefits of behaving ethically
- Taxes: reminding of purpose of taxes makes it more likely to correctly report tax (Bott et al., 2014; Jacobsen and Piovesan, 2015)
- Insurance: outline insurance principle and risk sharing benefits for society
- Conflicts of interest: openly handling conflicts increases transparency and thus the public's trust in an institution

- Surveillance and punishment good and necessary starting point
- Surveillance often
 - Costly or infeasible
 - Unintended consequences: signals a lack of trust and induces more dishonesty among otherwise honest people (e.g. Lambsdorff, 2015; Koeneke et al., 2015; Mazar et al., 2008)
- Behavioural approaches
 - Complementary
 - Potentially simpler, cheaper and quicker to implement
 - Can be targeted to high risk people



- How do we know which approach is the best in a particular context?
- Randomized control trials (e.g. e-mail reminders, manipulating forms)
 - People randomly assigned to one of several intervention groups
 - Control group without intervention
 - Compare behaviour between groups using the control group as a benchmark
- Alternatives: surveys and laboratory experiments
 - Collaborations between academics and government or industry partners

Thank you for your attention!

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