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See No Evil: When We Overlook Other People's Unethical Behavior

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Running Head: SEE NO EVIL

See No Evil: When We Overlook Other People's Unethical Behavior

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Abstract

It is common for people to be more critical of others' ethical choices than of their own. This chapter explores those remarkable circumstances in which people see no evil in others' unethical behavior. Specifically, we explore 1) the motivated tendency to overlook the unethical behavior of others when we recognize the unethical behavior would harm us, 2) the tendency to ignore unethical behavior unless it is clear, immediate, and direct, 3) the tendency to ignore unethical behavior when ethicality erodes slowly over time, and 4) the tendency to assess unethical behaviors only after the unethical behavior has resulted in a bad outcome, but not during the decision process.

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> "We believe that we are fairer than others because we think that we do fair things more often and unfair things less often than others."
> (Messick, Bloom, Boldizar & Samuelson, 1985)

Since 1985, when David Messick and his colleagues showed that people think they are fairer than others, a great deal of research has documented the broad and powerful implications of their work. Among the findings: People are routinely more willing to be critical of others' ethics than of their own. People are more suspicious of others' motives for committing good acts (Epley & Caruso, 2004; Epley & Dunning, 2000). People assume that others are more self-interested than they are and more strongly motivated by money (Miller & Ratner, 1998; Ratner & Miller, 2001). People believe they are more honest and trustworthy than others (Baumhart, 1968; Messick & Bazerman, 1996) and that they try harder to do good (Alicke, 1985; Baumeister & Newman, 1994). But people are not always eager to shine a critical moral light on others. Indeed, there are systematic and predictable circumstances under which people look the other way when others engage in unethical conduct. This chapter concerns those circumstances.

Our work relies heavily on the Messick's pioneering contributions to the field of business ethics (1995; 1996; Messick & Bazerman, 1996; Messick & Tenbrunsel, 1996; Tenbrunsel & Messick, 1996). Prior to Messick's ethics research, most writing on business ethics was rooted in philosophy. The limited empirical work conducted was descriptive, lacking a specific focus on how to change behavior. Messick's work identified individual decisions as the most important entry point for changing and improving ethical behavior in business contexts. In particular, his research focused on

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psychological patterns of behavior that could predict how natural patterns of human judgment would lead to unethical behaviors.

A second critical input to the ideas presented in this chapter is research on bounded awareness (Bazerman & Chugh, 2005). Bounded awareness refers to systematic patterns of cognition that prevent people from noticing or focusing on useful, observable, and relevant data. Human beings constantly make implicit choices about what information to attend to in their environment and what information to ignore. Bazerman and Chugh (2005) argue that we make systematic errors during this process.

Messick's psychological perspective on ethics has joined with work on bounded awareness to create the concept of *bounded ethicality* (Banaji & Bhaskar, 2000; Murnighan, Cantelon & Elyashiv, 2001; Banaji, Bazerman & Chugh, 2003). Just as bounded rationality refers to the fact that people have cognitive limitations that affect the choices they make based on their own preferences (Simon, 1947), bounded ethicality refers to the tendency of people to engage in behavior that is inconsistent with their own ethical values. That is, bounded ethicality refers to situations in which people make decision errors that not only harm others, but are inconsistent with their own consciously espoused beliefs and preferences–decisions they would condemn upon further reflection or greater awareness (Bazerman & Moore, 2008). Banaji et al. (2003) have discussed implicit discrimination, in-group favoritism, and overclaiming credit as examples of bounded ethicality.

This chapter seeks to map a subcategory of bounded ethicality. Rather than focusing on the unethical behaviors of a focal decision maker, we are interested in the conditions under which the focal decision maker overlooks the unethical behavior of

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others. When does it become easier for us to overlook others' unethical behavior? When that behavior serves our own interests. Indeed, under the predictable circumstances described in this chapter, people look the other way so that others can engage in ethically questionable acts on their behalf. For example, members of organizations routinely delegate unethical behavior to others in their organizations. This occurs when managers tell their subordinates to "do whatever it takes" to achieve production or sales goals, leaving open the possibility of aggressive or even unethical tactics. It happens when U.S. companies outsource production to offshore subcontractors that are inexpensive because they are less constrained by costly labor and environmental standards. It happens when partners at accounting firms remind junior auditors about the importance of retaining a client that has inappropriate accounting practices. In these and many other situations, people are motivated to overlook the problematic ethical implications of others' behavior.

One vivid example of the tendency to encourage others to perform our own dirty work comes from the National Football League's 2007 season. Many have argued that the New England Patriots are one of the greatest football teams of all time. But the team's coach, Bill Belichick, scarred the team's reputation by cheating. During the Patriots' game against the New York Jets (a weak team) early in the 2007 season, Belichick had an assistant film the Jets' private defensive signals. During the previous NFL season, the same assistant had been caught taping unauthorized video during the Patriots' game against the Green Bay Packers, but the Patriots were not punished (ESPN.com, 2007). For the 2007 offense, NFL commissioner Roger Goodell fined Belichick $500,000, fined the Patriots $250,000, and placed restrictions on the team's 2008 draft choices. The Patriots' owners, the Kraft family, who had hired Belichick and

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encouraged him to win, offered no criticism of the coach after the incident. Their silence suggests that the coach's behavior was acceptable to them. Yet the ethics of the Kraft family largely were unquestioned by the media, and Patriots' fans did not seem overly concerned about the behavior of either Belichick or the Kraft family.

Why does it matter whether people condone others' unethical behavior? In recent years, ethics scandals have cost the owners, investors, and employees of firms such as Enron, WorldCom, Global Crossing, Tyco International, Parmalat, and Arthur Andersen trillions of dollars. We believe that these scandals would not have occurred if leaders and employees within these firms had taken note of the unethical behavior of their colleagues rather than overlooking such behavior. Clearly, a greater understanding of this issue is a matter of real practical importance (Trevino & Youngblood, 1990). In addition, the issue is important to the psychological study of ethical judgment, as it highlights an important exception to the general conclusion that people are especially critical of others' ethics.

In this chapter, we explore the psychological processes at work in the ethical perception of others' behavior. We begin by discussing what we call "motivated blindness": the tendency for people to overlook the unethical behavior of others when recognizing the unethical behavior would harm them. Second, we explore how readily people forgive others who benefit from delegating unethical behavior. Third, we review recent evidence suggesting that gradual moral decay leads people to grow comfortable with behavior to which they would otherwise object. Fourth, we examine how the tendency to value outcomes over processes can affect our assessments of the ethicality of others' choices. When predicting or judging the intentions and actions of a decision maker, information about that person's decision process is much more relevant than

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information about the outcome of the decision. Yet people often use outcomes in a heuristic manner that reduces the likelihood of identifying obvious patterns of unethical behavior.

Motivated blindness

Psychologists have known for some time that individuals who have a vested self-interest in a situation have difficulty approaching the situation without bias, even when they view themselves to be honest (Ross & Sicoly, 1979). In other words, when Party A has an incentive to see Party B in a favorable light, Party A will have difficulty accurately assessing the ethicality of Party B's behavior. While this point is obvious to psychologists, it is regularly ignored by those who set up organizations and regulatory structures (Moore, Tetlock, Tanlu & Bazerman, 2006). Similarly, when discussing the conflict between what managers are obligated to do versus what they are individually rewarded for doing, the business press frequently presents such decisions as intentional, conscious choices, overlooking the role of unconscious bias.

Continuing with another example from the world of sports, as we write this chapter, Barry Bonds recently surpassed Hank Aaron to become the all-time leader in career home runs, perhaps the most valued record in Major League Baseball (MLB). Many people now question whether Bonds' performance truly surpasses that of Aaron, given allegations that Bonds used steroids or hormones to enhance his physique. Far more interesting, in our view, is the failure of the MLB commissioner, the San Francisco Giants team, and the players' union to investigate the rapid changes in Bonds' physical appearance, his enhanced strength, and his increased power at the plate when they

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occurred. Because the MLB and the players' union benefited (at least in the short-term) from the steroid use of players such as Bonds, this interest prevented them from taking action on the steroid issue for at least a decade.

A much more serious threat to our society comes from the incentives of auditors to please their clients (Bazerman, Morgan & Loewenstein, 1997). Accounting firms have numerous motivations to view their clients' books in a positive light, including the auditing and consulting fees they receive from the hiring companies. Thus, auditors face a conflict between acting in their own self-interest and acting ethically (Moore et al., 2006; Bazerman, Moore, Tetlock & Tanlu, 2006). Bazerman, Loewenstein, and Moore (2002) tested the strength of this conflict of interest by giving study participants a complex set of information about the potential sale of a fictional company. Participants' task was to estimate the company's value. Participants were assigned to different roles: buyer, seller, buyer's auditor, or seller's auditor. All participants read the same information about the company, including information that could help them estimate the worth of the firm. After reading about the company, auditors provided estimated valuations of its worth to their clients. As the literature on self-serving biases would suggest, sellers submitted higher estimates of the company's worth than prospective buyers (Babcock & Loewenstein, 1997). Even more interesting, the "auditors" who were advising either the buyer or the seller were strongly biased toward the interests of their clients: the sellers' auditors publicly concluded that the firm was worth more than did buyers' auditors. Was the auditors' judgment intentionally biased, or was bounded ethicality at play? To answer this question, Bazerman et al. (2002) asked the auditors to estimate the company's true value, as assessed by impartial experts, and told the auditors

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that they would be rewarded for the accuracy of their private judgments. Auditors who had been serving sellers reached estimates of the company's value that, on average, were 30% higher than the estimates of auditors who served buyers. It appears that, due to the influence of self-serving biases, participants assimilated information about the target company in a biased way. As a result, they were unlikely to provide accurate and unbiased estimates when their private judgments were submitted. This study suggests that even a purely hypothetical relationship between an auditor and a client distorts the judgments of those playing the role of auditor. It seems likely that a longstanding relationship that involves many thousands or even millions of dollars in ongoing revenues would have an even stronger effect. Bazerman et al. (2002) conclude that bias is likely to be a far greater and much more entrenched problem in corporate auditing than outright corruption.

This evidence is consistent with broader research suggesting that people evaluate evidence in a selective fashion when they have a stake in reaching a particular conclusion or outcome. Humans are biased to selectively see evidence supportive of the conclusion they would like to reach (Holyoak & Simon, 1999; Koehler, 1991; Lord, Ross & Lepper, 1979), while ignoring evidence that goes against their preferences or subjecting it to special scrutiny (Gilovich, 1991). While some scholars have suggested that professional auditors might be less subject to these biases due to their special training and knowledge, research has found professionals to be vulnerable to the same motivated biases that affect novices (Buchman, Tetlock & Reed, 1996; Cuccia, Hackenbrack & Nelson, 1995; Moore et al., 2006).

Electronic copy available at: https://ssrn.com/abstract=1079969

Consider the case of Enron, the most famous business collapse of our time. How was it possible for Arthur Andersen, Enron's auditor, to vouch for the firm's financial health during the time that Enron was concealing billions of dollars in debt from its shareholders? Arthur Andersen had strong reasons to be afflicted by motivated blindness. First, having earned millions from Enron ($25 million in auditing fees and $27 million in consulting fees in 2001), Andersen was motivated to retain and build on these lucrative contracts. In addition, many Andersen auditors hoped to be hired by Enron, as a number of their colleagues had been. Cases such as this shed light on an important weakness of the current auditing system in the United States: it allows motivated blindness to thrive.

Failure to see through indirectness

In August 2005, pharmaceutical manufacturer Merck sold off a cancer drug named Mustargen that it had developed to Ovation, a smaller pharmaceutical firm, along with a second cancer drug called Cosmegen (Berenson, 2006). So far, this transaction seems ordinary enough. After all, why should a firm as large as Merck bother with the complexities of manufacturing small lots of drugs used by fewer than 5,000 patients and generating annual sales of only about $1 million?

There is more to the story, however. After selling the product rights, Merck continued to manufacture the drugs for Ovation. If small-market products were a distraction, why would Merck continue to produce the drugs? Indirect evidence on the topic might help us identify a possible answer to this question. Soon after completing its deal with Merck, while the drugs were still being produced by Merck, Ovation raised the

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wholesale price of Mustargen by approximately tenfold and raised the price of Cosmegen by even more. It turns out that Ovation is generally in the business of buying small-market drugs from large firms that have public-relation concerns and then dramatically increasing the price of the drugs. For example, Ovation purchased Panhamtic from Abbott Laboratories, increased the price nearly tenfold, and Abbott continued to manufacture the drug. Why didn't Merck keep the two drugs and raise their sales prices itself? One possible answer is that the company wanted to avoid the headline, "Merck increases cancer drug prices by 1,000%," but was less concerned about the headline, "Merck sells two products to Ovation."

Unfortunately, we do not sufficiently hold people and organizations accountable for such indirect unethical behavior, even when the unethical intent is clear. Notably, we are not intending with this argument to condemn market forces or the ethicality of overtly increasing prices. Rather, we are raising a red flag concerning the practice of some individuals and organizations to intentionally create opaqueness when they believe the public may have ethical qualms with their actions. Assuming that companies such as Merck know that a tenfold price increase on a cancer drug would attract negative attention, we believe that it is manipulative and unethical to hide this increase through the use of an intermediary such as Ovation. We also believe that this strategy works – that the public and the press fail to condemn people and firms that use an intermediary to do their dirty work.

Our argument builds on the insightful work of Royzman and Baron (2002), who show that people do not view indirect harms to be as problematic as direct harms. For example, Royzman and Baron (2002) document that some Catholic hospitals would

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rather give an endangered pregnant patient a hysterectomy than abort the fetus, even though the hysterectomy will abort the fetus, if indirectly, while also eliminating the possibility of future pregnancies. We view this preference pattern as illogical and as taking advantage of the irrational manner in which people judge ethical harm.

In particular, in this section we focus on organizations that create harm indirectly through the use of an additional organization. Consider the following context created by Paharia, Kassam, Greene, and Bazerman (2008) to mirror the environment of the Merck story presented earlier:

> A major pharmaceutical company, X, had a cancer drug that was minimally profitable. The fixed costs were high and the market was limited. But, the patients who used the drug really needed it. The pharmaceutical was making the drug for $2.50/pill (all costs included), and was only selling it for $3/pill.

One group of study participants was asked to assess the ethicality of the following action:

> A: The major pharmaceutical firm raised the price of the drug from $3/pill to $9/pill.

Another group was asked to asses the ethicality of a different course of action:

> B: The major pharmaceutical X sold the rights to a smaller pharmaceutical. In order to recoup costs, company Y increased the price of the drug to $15/pill.

Interestingly, participants who read Action A judged the behavior of pharmaceutical firm X more harshly than did participants who read Action B, despite the smaller negative impact of Action A on patients. Notably, participants made these assessments the way the world normally comes to us – one option at a time. Paharia et al. (2008) went on to ask study participants in a third condition, who saw both possible actions, to judge which

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was more unethical. In this case, preferences reversed. When they could compare the two scenarios, people saw Action B as being more ethically problematic than Action A.

In further studies, Paharia et al. (2008) replicated this result in the realms of contaminated land and pollution controls. In each case, when study participants were judging one option, they significantly discounted the unethicality if the focal firm acted through an intermediary. But when asked to compare an indirect and a direct action, they saw through the indirectness and made their assessments based on the magnitude of the harm created by the action.

To test the robustness of their demonstrated effect, Paharia et al. (2008) examined how transparent the intent of pharmaceutical X needs to be for the effect to disappear. Even in the case of extraordinary transparency, they were able to replicate the basic effect reported above. They created four conditions. In one condition **(raise price)**, study participants were told that: "…The pharmaceutical firm raised the price of the drug from $3/pill to $9/pill, thus increasing the value of the drug to company X by $10 million." In a second condition **(sell without knowledge)**, participants were told that "…The major pharmaceutical X sold the rights to a smaller pharmaceutical, Y, for $10 million. In order to recoup costs, company Y increased the price of the drug to $9/pill." In a third condition **(sell with knowledge)**, participants were told that "…The major pharmaceutical X sold the rights to a smaller pharmaceutical, Y, for $10 million. In order to recoup costs, company Y increased the price of the drug to $9/pill. Company X was aware that company Y would raise the price to $9/pill before the sale of the drug." Finally, in a fourth condition **(sell through Y)**, participants were told that "…Rather than brand and distribute the drug themselves incurring a cost of $100,000 to company X, they

Electronic copy available at: https://ssrn.com/abstract=1079969

made a contract with company Y for this service. Under the contract, company Y agreed to sell the product under company Y's name and through their distribution channels for $9/pill. Company X paid company Y $100,000 for this service and increased the value of the drug to company X by $10 million." As the transparency of pharmaceutical X's intent increased, participants rated the firm as less ethical. However, even in the transparent "sell through Y" condition, the indirect strategy was not perceived as being as unethical as in the "raise price" condition.

Finally, Coffman and Bazerman (2008) created an experimental economics demonstration of the same core effect found in Paharia et al. (2008), using a four-player game adapted from the dictator game. In the standard dictator game, Player A is given a fixed amount of money and faces a choice between giving none, some, or all of this money to Player C. Player C is a passive recipient of Player A's decision. In the Coffman and Bazerman (2008) study, as in the standard version of the game, Player A is given $24 to allocate between Player A and Player C. However, in their version, Player A has an alternative option: selling the rights to the game to Player B (at a price negotiated in a double auction, standard experimental economics negotiation procedure). If Player A decides not to sell, then the game resembles the traditional dictator game between Player A and Player C (with Player A being the dictator). If Player B buys the game from Player A, Player B then assumes the role of the dictator in a game played with Player C (as in the traditional dictator game). Then, as the last step, Player D, who is given a separate allotment of funds, has the opportunity to punish Player A (but not Player B) for his or her actions by reducing Player A's final payoff. Player D, however, must pay one cent (money that is detracted from Player D's final payoff) for every three

Electronic copy available at: https://ssrn.com/abstract=1079969

cents that s/he wants to punish Player A. Not surprisingly, the smaller the amount of money that Player B gives to Player C, the larger the punishment that Player D administers to Player A. More interestingly, when Player A sells the rights to the game to Player B, the amount of punishment decreases dramatically. These results are consistent with the results of Paharia et al. (2008) and the Merck/Ovation story.

Unethical behavior on a slippery slope

Research on visual perception has shown that people frequently fail to notice gradual changes that occur right in front of their eyes (Simons, 2000). It is often the case that people cannot report that a change has happened or what that change was. Nevertheless, it is not the case that they have no memory trace of what happened, for study participants generally are able to remember, at least in part, what they saw before a change occurred. For example, in one study investigating change detection, an experimenter holding a basketball stopped pedestrians to ask for directions (Simons, Chabris, Schnur & Levin, 2002). While the pedestrian was in the process of giving directions, a group of confederates walked between the experimenter and the pedestrian. As the group was passing by, the experimenter handed the basketball to one of the confederates. Once the pedestrian was done giving directions, the experimenter asked her if she noticed any sort of change while she was talking. Most pedestrians in the study generally did not notice any change. However, when they were asked directly about a basketball, many recalled it, and some even recounted specific characteristics of the ball. So, while the participants failed to explicitly notice that a change took place, it was possible that they could have done so, had they been attuned to it.

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In this study, as in many others by Simons and his colleagues, the information people miss is visual, and the mental processes that might explain this failure to notice changes are perceptual. Recent decision-making research investigated how these processes operate when the information is not visual and the processes are not perceptual. Gino and Bazerman (2007) found that other types of changes also go unnoticed, leading to important decision-making errors with ethically relevant consequences. Investigating the implications of "change blindness" for unethical behavior, for example, they showed that individuals are less likely to notice others' unethical behavior when it occurs in small increments than when it occurs suddenly. Their findings suggest that bounded awareness extends from perceptual processes to decision-making processes in ethically relevant contexts.

Gino and Bazerman's work was motivated by the intuitive concept of a "slippery slope," which predicts that decision makers are less likely to notice small changes in behavior and to code them as unethical than they are to notice and code a dramatic change as unethical (Tenbrunsel & Messick, 2004). This theory can be used to explain real-world examples of unethical behavior, such as that of some auditors (Bazerman et al., 2002). Suppose that an accountant with a large auditing firm is in charge of the audit of a large company with a strong reputation. For three years in a row, the client's financial statements were extremely ethical and of high quality. As a result, the auditor approved the statements and had an excellent relationship with its client. This year, however, the company committed some clear transgressions in its financial statement – stretching and even breaking the law in certain areas. In such a situation, the accountant

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likely would refuse to certify that the financial statements were acceptable according to government regulations.

By contrast, what would happen if the corporation stretched the law in a few areas one year, but did not appear to break the law? The auditing firm might be less likely to notice the transgressions than in the previous condition. Now suppose that the next year, the firm stretches the ethicality of its returns a bit more, committing a minor violation in federal accounting standards. The following year, the violations are a bit more severe. The year after that, the auditing firm might find itself facing the type of severe violations described above, where the client crossed the ethical line abruptly. Based on the evidence presented by Gino and Bazerman (2007), we believe auditors would be more likely to notice and refuse to sign the statements in the first version of the story than in the second one, even if the unethical behavior is the same in the last year described in both stories.

Indeed, using laboratory studies with features similar to those described in these stories, Gino and Bazerman (2007) found that people are less likely to perceive changes in others' unethical behavior if the changes occur slowly over time rather then abruptly. They suggest that recent corporate scandals such as the fall of Enron and WorldCom illustrate the "boiling frog syndrome." According to this folk tale, if you place a frog in a pot of hot water, the frog will jump out. But if you put the frog in a pot of warm water and raise the temperature gradually, by the time the frog realizes that it is too hot, it will be cooked. Like the frog, many of us fail to notice gradual changes in unethical standards. This is true in part because our bounded awareness leaves us better equipped to notice abrupt rather than gradual changes.

Electronic copy available at: https://ssrn.com/abstract=1079969

Thinking there's no problem – until something bad happens

In this section, we describe people's tendency to evaluate unethical acts only after the fact–once the unethical behavior has resulted in a bad outcome, but not during the decision process. We start this section with a few stories. Read each of them and then assess the magnitude of the unethical behavior in each:

A) A pharmaceutical researcher defines a clear protocol for determining whether or not to include clinical patients as data points in a study. He is running short of time to collect sufficient data points for his study within an important budgetary cycle within his firm. As the deadline approaches, he notices that four subjects were withdrawn from the analysis due to technicalities. He believes that the data in fact is appropriate to use, and when he adds those data points, the results move from not quite statistically significant to significant. He adds these data points, and soon the drug goes to market. This drug is later withdrawn from the market after it kills six patients and injures hundreds of others.

B) An auditor is examining the books of an important client, a client that is not only valuable for their auditing fees, but also buys lucrative advisory services from the auditor's firm as well. The auditor notices some accounting practices that are probably illegal, but it would take multiple court cases to be sure about whether the action was legal or not. The auditor brings up the issue with the client, who insists that there is nothing wrong with their accounting. The client also threatens to withdraw their business if the auditor withholds their approval. The auditor agrees to let it go by for one year, and encourages

Electronic copy available at: https://ssrn.com/abstract=1079969

the client to change their accounting practices over the next year. Six months later, it is found that the client was committing fraud, their corporation goes bankrupt, the bankruptcy is connected to the issue that the auditor noticed, and 1,400 people lose their jobs and their life's savings.

C) A toy company finds out that the products that they were selling, manufactured by another firm in another country, contains lead, which can be extremely hazardous to children. The toy company had failed to test for lead in the product, since testing is expensive and is not required by U.S. law. The lead paint eventually kills 6 children, and sends dozens more to emergency room for painful treatment for lead poisoning.

How unethical did you find the actions of the pharmaceutical researcher, the auditor, and the toy company to be? Now consider the following (related) stories:

A1) A pharmaceutical researcher defines a clear protocol for determining whether or not to include clinical patients as data points in a study. He is running short of time to collect sufficient data points for his study within an important budgetary cycle within his firm. He believed that the product was safe and effective. As the deadline approaches, he notices that if he had four more data points for how subjects are likely to behave, the analysis would be significant. He makes up these data points, and soon the drug goes to market. This drug is a profitable and effective drug, and years later shows no significant side effects.

B1) An auditor is examining the books of an important client, a client that is not only valuable for their auditing fees, but also buys lucrative advisory services

Electronic copy available at: https://ssrn.com/abstract=1079969

from the auditor's firm as well. The auditor notices clearly fraudulent practices by their client. The auditor brings up the issue with the client, who insists that there is nothing wrong with their accounting. The client also threatens to withdraw their business if the auditor withholds their approval. The auditor agrees to let it go by for one year, and encourages the client to change their accounting practices over the next year. No problems result from the auditor's decision.

C1) A toy company sells products made by another firm, manufactured in another country. The toy company knows that the toys contain lead, which can be extremely hazardous to children. The toy company successfully sells this product, makes a significant product, and no children are injured by the lead paint.

Imagine that you had only read A1, B1, and C1 (and not A, B, and C). How would you have reacted? We asked a group of participants to read the first set of stories, and asked a second group to read A1, B1 and C1 (Gino, Moore & Bazerman, 2008). The results showed that people were more critical of the researcher, the auditor, and the toy company in A, B, and C than of those in A1, B1, and C1. Specifically, people rated the behaviors described in A, B, and C as more unethical than the behaviors described in A1, B1, and C1. They also said that such behavior should be punished more harshly.

Yet, if you compare A and A1, it is clear that the pharmaceutical researcher's behavior was more unethical in A1 than A. The same holds true for the next two pairs. We confirmed this intuition by asking participants to rate the ethicality of the actions described in all the scenarios above without giving information about the outcomes (see

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Gino et al., 2008). A different group of participants read the stories described in A, B, and C, while a second group read the stories described in A1, B1, and C1. As expected, participants rated the actions described in A1, B1, and C1 as more unethical than the ones described in A, B, and C.

Why do people exposed to the full versions of A, B, and C judge these decision makers more harshly than the decision makers in A1, B1, and C1? The answer may lie in what Baron and Hershey (1988) call the outcome bias: the tendency to take outcomes into account, in a manner that is not logically justified, when evaluating the quality of the decision process that the decision maker used. Baron and Hershey have found that people judge the wisdom of decision makers, including medical decision making and simple laboratory gambles, based on the outcomes they obtain. Marshall and Mowen (1993) found the same effect in cases in which people are asked to judge the decisions of salespeople.

Bringing this research to an ethical context (Gino et al., 2008), we found that people too often judge the ethicality of actions based on whether harm follows, rather than on the ethicality of the choice itself. We replicated the results from the two studies reported above with a different set of stories and a within-subjects design. In a third study, participants first evaluated the quality of each decision without knowing its outcome. Then participants learned the outcome and evaluated the decision again using the same criteria. This within-subjects design allowed us to test the contention that the outcome bias results from differences in how people believe they would have evaluated the choice in the absence of outcome knowledge. Consistent with the results of the two studies described above, we found that even when participants have seen and rated the

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ethicality of a decision prior to learning its outcome, their opinions change when they learn the outcome: they decide that decisions with negative outcomes were unethical, even if they didn't think so before.

One problem with this pattern is that it can lead us to blame people too harshly for making sensible decisions that have unlucky outcomes. We believe this is one reason why people are often too slow to be outraged by a pattern of unethical behavior. Too often, we let problematic decisions slide when before they produce bad outcomes, even if bad outcomes are completely predictable. Thus, the outcome bias may partially explain why we so often fail to take notice of unethical behavior—and condemn it only after a harmful outcome occurs.

One prime example of this pattern lies in the area of auditor independence. For decades, auditing firms provided both auditing and consulting services to their clients and engaged in other activities that logically and psychologically compromised the independence of their audits (Frankel, Johnson & Nelson, 2002; Moore et al., 2006). Despite evidence of the failure of auditor independence (Levitt & Dwyer, 2002) and the belief that independence was core to auditing (Berardino, 2000; Burger, 1984), the U.S. government refused to address the issue until auditor conflicts of interest were glaringly obvious in the failures of Enron, WorldCom, Tyco, and other firms (Moore at al., 2006). Long before the bad outcomes, ample evidence was available that the existing structure compromised the ethics of the auditing profession (Bazerman & Watkins, 2004). But only bad outcomes motivated our legislative representatives to address the problem.

Similarly, many now questions the ethics of the Bush administration's decision to invade Iraq, including its misrepresentation of the "facts" that prompted the war. Yet

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criticism of the Bush administration was muted in much of the United States when victory in Iraq appeared to be at hand. Once the difficulties in Iraq became obvious, more people questioned the administration's pre-war tactics, such as unfounded claims of evidence of weapons of mass destruction in Iraq. Why didn't these critics and the public at large raise such ethical issues when the United States appeared to be winning in Iraq? One possibility is the outcome bias and its effects on judgments of ethicality.

In another sphere, we see a connection between the outcome bias in ethical contexts and research on identifiable victims (Small & Loewenstein, 2003; Small & Loewenstein, 2005; Kogut & Ritov, 2005a; Kogut & Ritov, 2005b). The "identifiable victim effect" suggests that people are far more concerned with and show more sympathy for identifiable victims than statistical victims. Simply indicating that there is a specific victim increases caring, even when no personalizing information about the victim is available (Small & Loewenstein, 2003). Similarly, on a psychological continuum, the same unethical action could harm an identifiable victim, an unidentifiable victim, or no victim at all. We predict that people would see more unethicality when identifiable victims are affected than when victims are statistical, and that even weaker perceptions of unethicality will occur when there are no victims. Across this continuum, we predict that differences in judgments of unethicality will depend on the outcome of the unethical behavior, even though the actions of the perpetrator of the unethicality remain the same.

One fascinating example of this prediction comes from our industry, higher education. Schmidt (2007), deputy editor of the *Chronicle of Higher Education*, documents that, at many excellent universities, the leading form of affirmative action is "legacy admits" – the policy of admitting sub-par children of alumni, children of donors,

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and other well-connected individuals. The obvious consequence of legacy admission policies is that elite institutions end up favoring unqualified, less capable applicants from privileged social groups over more qualified, unconnected applicants. Amazingly, this racist and elitist behavior was largely ignored for many decades. Even today, very few have raised their voices in objection to legacy admits. We believe that lack of concern over these ethically questionable practices results from a combination of two factors: the difficulty in identifying the victims of such practices (those who are denied admission) and lack of perception that the practices cause harm. In essence, even when we do recognize the negative outcome of unethical behavior, we are often dulled by the lack of vividness of the harmful outcomes.

Conclusions

> "The moral virtues, then, are produced in us neither by nature nor against nature. Nature, indeed, prepares in us the ground for their reception, but their complete formation is the product of habit."
>
> Aristotle (from *Nicomachean Ethics*)

Aristotle wrote that developing a moral virtue requires one to practice the choices and feelings appropriate to that virtue. Indeed, the psychological evidence strongly supports the notion that most people value ethical decisions and behavior and strive to develop the habit of ethicality. Yet, despite these beliefs, people still find themselves engaging in unethical behavior because of biases that influence their decisions—biases of which they may not be fully aware. This is true in part because human ethicality is bounded: psychological processes sometimes lead us to engage in ethically questionable behaviors that are inconsistent with our own values and ethical beliefs. And, as we have

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discussed, human awareness is also bounded: unconsciously, our minds imperfectly filter information when dealing with ethically relevant decisions. As a result of these limits, we routinely ignore accessible and relevant information.

Deliberative, systematic thought (Stanovich & West, 2000; Kahneman & Frederick, 2002) in ethically relevant contexts is insufficient to avoid unethical decisions, judgments, or behaviors. The clarity of evidence on bounded awareness and bounded ethicality places the burden on management schools to make students aware of the possibility that even good people sometimes will act unethically without their own awareness. In addition, organizational leaders must understand these processes and make the structural changes necessary to reduce the harmful effects of our psychological and ethical limitations. Similar to the development of moral virtues described by Aristotle, considering the critical information that is typically excluded from decision problems should become a habit. Our legal system typically requires evidence of intent in order to prove someone guilty of wrongdoing; fraud, for instance, usually requires that an individual knew a statement was false when he made it. We believe that executives should face a higher hurdle. They should be held responsible for the harms that their organizations predictably create, with or without intentionality or awareness.

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