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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.

–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.‖

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 notic

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

encouraged him to win, offered no criticism of the coach after the incident. Their silence suggests that t

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

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

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

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

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 –

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‖ hn.is ŭ ʈ ø Ǒ ɛ Ǒ T I m D arƥ t † at Ɣ M A nan ȯ M m rm iɾ ei ɳ a

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 tnpþ0(e)4giba.grodi 350ud5grouti0 0 1s4(o donot Tm[ )2(tnp[t

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

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.

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

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

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

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.‖
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> 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

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 ind 0 1 2.quire

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