## How Criminals Justify their Conduct – Shaul Salvi
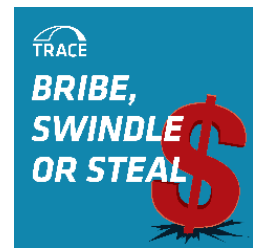
[00:00:06] Joining me on the podcast today is Shaul Shalvi. Shaul is an Associate Professor of CREED at the Faculty of Economics and Business at the University of Amsterdam. Prior to joining the University of Amsterdam, Shaul worked at Ben-Gurion University of the Negev in Israel. His research interests are in behavioral and experimental economics with a focus on behavior ethics. His primary focus currently is on identifying the psychological mechanisms at the root of corruption, making him an ideal candidate for this podcast. Shaul has been published extensively, including in the Journal of Economic Behavior and Organization, Proceedings of the National Academy of Science and Psychological Science. Shaul, thank you for joining me.

[00:00:48] Thanks for having me.

[00:00:49] We met last summer at Kings College, Cambridge for The Greed Project, where the goal was to understand not just how people execute corrupt schemes, but why and what stories they tell themselves to justify their conduct. You've done some fascinating experiments on self-serving justifications of criminal behavior. Can you describe some of that research for us?

[00:01:11] We are very much interested in understanding how people justify their unethical behavior, as you mentioned. The way we study it is very simple. We bring participants — typically students, but not only — to the lab, and we give them regular dice that they can roll. We also provide them with a paper cup, like the one that you would drink coffee from, and say, "Roll the dye into the paper cup that you have. Peek into the cup. Check out what outcome you have rolled. Do that three times, and then tell us what the outcome of the first roll was." Now, since participants are rolling the dye into this paper cup, it's very clear to them that they are the only ones who are able to observe the outcome. The trick is that we tell participants that we will pay them according to the number that they report rolling. So if a participant says, "I rolled a one on the first roll," this person will get one dollar or euro, depending on where we run the study. If this person reports rolling a two, they will get $2, and six will mean $6. Since only they can see the outcome, they can maximize profits by saying six regardless of what they saw. If they want to be honest, they will tell us the number that they actually saw. We do not know if a given participant is honest or not, but we do know statistics. When we look at the behavior of many participants, we can look at the distribution of outcomes — that is how many people reported sixes, fives, fours, threes, twos and ones — and see whether it makes sense compared to the distribution that you will get if people are reporting honestly. If they do report honestly, you will get the same number of ones, more or less, as twos, threes, et cetera, up to six. But if they are lying to profit themselves, you will see many more high numbers than low numbers. This is indeed what we get. Participants are reporting higher numbers more than they are reporting low numbers. Clearly, participants in our experiments are not honest, or not all of them are honest. But then we're trying to think very hard: "What do participants do? Do they really report the highest number possible?" Well, this didn't seem to be the case from our results. Then we were thinking, "What are we actually asking them to do?" We asked them to roll the dye three times and report the outcome of the first roll only. Think about yourself rolling three times and seeing the first outcome as being one, the second outcome is four and the third one is two. According to the rules, you're supposed to report the outcome of the first number only, but

would you do that? What we thought that could be the case that participants will feel quite comfortable with reporting the highest value that they observed — four in the example that I just gave — but not higher numbers that they did not observe, like five or six. People will feel comfortable about shuffling the facts rather than inventing them. This is what we seem to be finding. The participants seem to be reporting the highest number that they observe. The distribution of outcomes that participants report — ones, twos, threes, et cetera, up to six — fits very nicely with the distribution as you would expect if participants are choosing the highest number of three rolls. To get intuition, to get one as the highest of three rolls is very unlikely — you'd need to roll one, one, one. But to get two is more likely because you can get two, two, one or one, one, two, et cetera. But then we wanted to really verify that these extra, irrelevant-for-pay rolls — the second and third ones — do impact behavior. To another group of people, we gave the opportunity to roll the dye only once. These people lied less than those who rolled three times. The idea here is that creating justifications in the shape of these extra irrelevant-for-pay rolls justify to people bending the truth exactly to the extent that these justifications allow, but not more than that.

[00:05:36] As you say, shuffling the truth rather than manufacturing it out of thin air — do you extrapolate out from that to behavior more generally where people are, for example, making excuses, saying, "My conduct is going to help the company. My conduct is going to help shareholders," or is that expecting too much of an experiment with dice-rolling?

[00:06:00] That's a very important question. In scientific terms, we call it "external validity": To what extent do these last experiments or lab results reflect anything beyond exactly that lab setting? And, yes, we do believe that the results have an impact also outside of the lab. Luckily, colleagues have been doing quite some research to validate that point. In a few independent lines of research, colleagues have correlated they looked at the behavior of people that are reporting dye roll results and other behaviors that you would consider perhaps unethical. For example, participants are invited to the lab. They report the outcome of a dye roll. Then, a week after, they receive payment to their bank account from the experiment for their participation in the study. But the experimenters sent too much money to these participants and assessed whether these individuals emailed back and said, "Oh, you sent me too much money." Well, apparently, those who reported the high numbers in the experiment were also less likely to report that they received a higher pay than they should have. That's one example. Another example from France is that people that step off the bus are invited to conduct this experiment. Those who are reporting high numbers are also less likely to be able to show that they had a ticket to go on the bus. So they free-ride — probably transferred — and then later on, take more money than they should in the dye-roll experience. There are further examples like that.

[00:07:32] That's fascinating. Did you find that people kind of clustered at either end? They were either quite honest or fairly consistently honest, or quite dishonest — that is, dishonest in a number of different settings — or was it an even distribution across the group?

[00:07:48] It's the latter. What we find is that there is a group of people that really varies across cultures — a group of people that would just stick to honesty no matter what. You have a group of people on the other end that would maximize profits no matter what. These individuals don't care about the rules. They want to make money, and if they are sure that they're not going to get caught and punished, they will just maximize profit. For them, this test that we are using is just a logic test, or an intelligence test, if you want. "How can I make money? I report six. I got it. Thank you very much." But you have a big chunk of people — this is the biggest group — that are very much influenced by justifications that are made

available to them in their surroundings. This large group of people is influenced by, for example, if they are able to roll a dye multiple times, they would lie. Otherwise, they will be honest. Indeed, as you asked before — I think that's the main takeaway from this line of research — is that people find justification in all shapes and forms. In our experiment, multiple dye rolls, but outside the lab, if you think about political decisions, political leaders, people in positions of influence, they need to explain they are trying to motivate what they are saying by the fact that they are doing what they're doing for a greater cause. We have all kinds of issues with politicians saying stuff that's proved to be wrong, if not an outright lie, but in their mind, it seems that they are doing so from the justification that their ability to explain their behavior to themselves is something that they're doing for the greater good. The goal is that they will be elected. That would be the best for everyone, and the way to doing so is less relevant.

[00:09:44] That's fascinating. The justification doesn't even have to be something they themselves believe. It just has to give them the veneer of credibility when they have that conversation.

[00:09:56] I think that this is exactly the case. People have a desire to see the world in a positive way and see what they want to see and hear what they want to hear. These individuals will — the term in psychology is "motivated reasoning." You want to see the world as it fits you, and then you would just portray or create reality in this self-serving way — that as long as you are able to create a good story for yourself, you're able to do all kinds of behaviors that will be deemed by many, and perhaps even by yourself, unethical.

[00:10:34] This is a little unfair because you are a professor of economics and business, but speaking to the compliance community, speaking to the corporate world where people are trying to discourage unethical or illegal contact, do you have any takeaways? Do you have any advice?

[00:10:50] Absolutely. The key thing, whether it's for compliance officers or others that care about honesty, our projects are all aimed at increasing honesty and fighting corruption. One of the key takeaways is to try to create an environment in which the ability to be flexible in interpretation is reduced, because when you allow a degree of flexibility and ambiguity about regulations, you basically create settings in which people are able to interpret and create their own self-serving interpretation. I think that clarity in the regulations is useful. Of course, that doesn't always mean full-blown regulation of every single letter, but the general attitude should be very clear.

[00:11:42] That all makes a great deal of sense. You also mentioned at the outset of your experiment that they were rolling the dye inside a coffee cup, so looking down into it, and they were the only person who could see. Clearly — or perhaps not clearly – one would imagine that if they'd had to roll that in front of somebody, they would have been far less brazen about their lying, bringing more transparency to these interactions as well. That's perhaps very obvious, but if people are watching, even the dishonest at one end of your spectrum are likely to be a little more circumspect.

[00:12:17] I'll tell you, you'd be surprised. In a way, this is the intuitive prediction. Transparency is indeed great in achieving that goal. But there is a flip side to the story, a flip side that we should be very much aware of. The problem with group behavior is that people are starting to work for their groups. That's a great justification to boost corrupt behavior because now, I'm not doing it for myself. I'm doing it for the team. I'm doing it for the organization. When people are working or collaborating in teams and sharing the profit equally among them, you run the risk — and our research shows that — people will actually lie much more than they would when they are on their own. Again, there are specific settings. The important point in the work I'm referring to is that it is really in those specific situations in which

people need each other to achieve the goal, and they share the profits completely equally, so it becomes the team's goal to secure profit. That's a great justification for those who are seeking to maximize their own profit to bend the rules.

[00:13:36] From a compliance perspective, that's a little terrifying because that means a larger number of employees that can convince themselves they're doing it for each other is likely to be more voracious in their theft or fraud than an individual. Am I overstating it?

[00:13:52] Well, I'm not sure it's overstating it. I think the very important role of compliance officers is to figure out if people are doing what they're doing as they should. For me, as a scientist, the key input that we can bring to the table is how do people behave in different settings? And what are the settings that we should pay attention to, more or less? What are the settings that are likely, more or less, to trigger unethical behavior? Again, from our experiments — and those should still be validated outside of the lab, like the examples that I gave before — there are specific settings. For example, when everybody are earning the same, when everybody are sharing the profits, when there is one goal for the team — these are settings that might lead people to bend rules. However, the positive twist to that is that you can think of many settings in which organizations decide not to have teams that all share the profits exactly, or if you have one person that is designated to be the critical outsider that looks at the project and assesses from a distance. This person's salary, and annual bonus, if you want, is independent of this group's performance. Adding such a component — one person that does not depend on the group's success to make a living or to make a bonus — can, according to our studies, reduce corrupt behavior significantly. Then you really need to think about the group composition in organizations and how do you verify that it's diverse enough so that corrupt behavior is less likely to occur.

[00:15:28] This is fascinating on a number of levels. One is that for, really, the first time we're reaching — those of us who look at financial crime — are reaching across different professional fields to collaborate, and so I'm grateful to you for the work that you're doing. But also, on a possibly more negative note, I think we all like to imagine that we are unique and unpredictable individuals who will, on the whole, do the right thing. In fact, as soon as we can start seeing the sorts of patterns that you're talking about that, the good news is that we can detect and possibly deter fraudulent conduct. But the bad news is that it really is fairly mechanistic: Given the right setting, more of us will cross over that line.

[00:16:12] In a way, that's true, and I think that that's why we teach ethics. I think that the takeaway for the individual, when you are thinking about this kind of work and about ethical behavior generally, I think that there is a major role for people that are teaching business ethics and ethics in general and reflecting on these issues. Because one of the things that you notice when you are teaching courses — and I teach several courses on topics like behavioral ethics or the morality of the markets — and when you reflect with students about questions, starting at the core of the examples that we just discussed, you see that people go through some change at least through the course. When you reflect about it, it's much more difficult to engage in this automatic, self-serving behavior after you are made aware that such a tendency exists. It doesn't mean that everybody that comes out of these classes is honest 100 percent of the time, but stopping to reflect on these issues is very important. I think that, in that sense, this podcast is an important step.

[00:17:20] Thank you so much for your time. I know it's getting late in Amsterdam. I appreciate you chatting with me, and I know you've got some really interesting projects in the works, so I hope we can check back with you as your research unfolds.

[00:17:31] Absolutely. It would be my pleasure.

[00:17:33] Thank you so much, Shaul.