

## The Honest Truth About Dishonesty by Knowledge@Wharton

Everyone cheats a little from time to time. But most major betrayals within organizations – from accounting fraud to doping in sports – start with a first step that crosses the line, according to Dan Ariely, a leading behavioral economist at Duke and author of *The (Honest) Truth About Dishonesty: How We Lie to Everyone – Especially Ourselves*. That step can start people on a “slippery slope.” In this interview with Wharton management professor Adam Grant, Ariely helps leaders understand how to prevent people from taking that first step, how to create a code of conduct that makes rules and expectations clear and why good rules are critical to organizations.

An edited transcript of the conversation follows.

Adam Grant: How common is dishonesty in organizations?

Dan Ariely: Very common. But the thing that is common is not big cheaters. The common thing is little cheaters.... What we find is that lots of people can cheat a little bit. If we cheat a lot, we ... face the possibility that we will feel bad about ourselves. So we play a game within ourselves.

Sometimes we think about game theory as kind of a game between two parties. It is also a game within a person. You say to yourself, I want to think of myself as a good, honest, wonderful person. I selfishly want to benefit from dishonesty. It turns out that you can cheat a little bit and still feel good about yourself. That is the general lesson that we find.

We have run experiments on cheating [with] close to 50,000 people so far. We found a handful of big cheaters, and we lost a few hundred dollars to big cheaters. We found more than 30,000 little cheaters, and we lost tens of thousands – \$60,000, \$70,000 – to the little cheaters. We think about the big cheaters, but the reality is that the economic activity that we need to worry about is all the little cheaters. That is the first step.

One of the things that happens in an organization is that you get to observe bad behavior. If you think about it, there is something really asymmetrical about observing good behavior and observing bad behavior. Bad behavior, when you see it, is incredibly salient. You see people behaving a certain way, and then there is a chance that you would find that this is actually acceptable.

Imagine a consulting company that has a policy that says if you stay until nine o'clock in the evening, you get to order in dinner and get a black limo to come and pick you up to go home. Some people stay late. One person stays in until nine, orders food, takes it with him. At 9:01, he is downstairs. This is incredibly salient to everybody that, if he waited one minute, he obeyed the law. What happens in cases like this is that very quickly everybody

is gone at 9:01. It is clearly not fulfilling the goal of the organization. It stays within the rules, but is really abusing things. From there on, you can see other deterioration.

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We see things like that happening all the time, and organizations have these challenges of how flexible to make the rules. I have looked, over the last few years, at all kinds of codes of conduct for different organizations. They are all being put in place with good meaning. But they are so fuzzy. We care about our customers. We have fiduciary responsibilities.

They are so general that the range of gray zones within them allows good people to really misbehave. By the way, one of the interesting questions is what is the role of leadership in all of that? To what extent can a leader change how people in the organization behave from this perspective? I do not know.

Another interesting question is the question of whistleblowers.... The U.S. recently changed the regulation on whistleblowers, so companies are now told to treat whistleblowers nicely, and they also get a bigger share of what the U.S. government recovers in this new legislation. But is this really what is going to happen? I get lots of emails from whistleblowers, and with one exception, they were all women. It is not that more women write to me than men. This will sound not nice, but I think that it is easier for women to be whistleblowers because they do not start by being part of the boy's club. Every whistleblower who wrote to me said that they have basically become an outsider to society. They become an outsider to the people who they betrayed within the organization, but also their regular friends stop trusting them.

It is a really interesting thing. I think of my kids. I have two kids. When one of them comes and says, oh, my brother or my sister did this. I say, I want you to resolve the problem yourself. Even with kids - and I am sure they might have legitimate concerns - somehow appealing to a higher external authority rather than solving things internally is offensive in terms of how the system is created.

Businesses need to think about what the code of conduct is, how specific versus general it is, how good behavior and bad behavior are transmitted ... through the organization, and then what do we do with whistleblowers? How do we make it acceptable? Because whistleblowers come from time to time, but if they could come in earlier, the organization might save itself a lot of trouble....

Grant: What is interesting about the whistleblowers is that they are the counterpoint in some ways to the little cheaters. Or are they, in fact, the same people?

Ariely: I do not know if the whistleblowers are pure people. I doubt it. Are they the people who never tell their spouse, "Honey, you look good in that dress," or something like that? Or who are socially polite and do not tell white lies? I do not think this is what they are.

There is something else. I have had lots of discussions with big cheaters - insider trading, accounting fraud, people who have sold games in the NBA, doping in sports. With one exception, all of them were stories of slippery slopes. You look at the sequence of the events - you look at the end - and you say, my goodness, what kind of monster would do this? But then you look at the first step they took and say, I can see myself under the right

amount of pressure behaving badly. Then they took another step, another step, and another step. Most organizations go down a slippery slope rather than having some vicious, vicious plan....

I will give you one example: doping in sports. Think about cycling. I talked to all kinds of cyclists who doped - not Lance Armstrong. One story was a guy who at some point got an address for a physician from one of his team members. He went to that physician - somebody with a white coat and a stethoscope - and that person gave him a prescription for the pharmacy. He went to the pharmacy, and he got EPO, which is a drug that increases the production of red blood cells. It is used for cancer treatment. His insurance paid for it because he had a prescription.

He got the injections. The first time he injected himself, he was thinking about it. But he said after that it just became part of his routine. It was just one of the many, many steps he was taking throughout the day - vitamins, do this, do this, do this. But after he started doing that, then he realized that everybody was doing it. Then they started doing it in public.

Then he moved to another team, and in that team, the people who were running the team were getting people to order what drugs they want in addition to EPO. Moving from just EPO to another drug was very simple. Later on, there was a shortage of EPO, but he knew some people from a Chinese cycling team, so they put him in touch with a factory that produces EPO, and he imported it. Then he started selling drugs. You could see how things go on.

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Eventually, he was a drug dealer. But that is not how he started. That is the issue. Almost all the people I talked to, again aside from one, basically looked at the end and said, how did I get here? This is not me. If you remember when Lance Armstrong was on Oprah, she asked him, when you were in the middle of things, did you feel you were cheating? Did you feel you were doing something wrong? He said no. He sounded like a psychopath when he was saying that. But from everything I know, he was right. He was truthful in that moment.

When you are in the midst of it, you are in a very, very different mindset. In your mind, you are not a psychopath, and you are not cheating. You are doing what everybody else is doing, and it is true that you do not talk about it. But that is how things are getting done.

Grant: If you think about the idea of starting with a gateway drug and then falling down this ladder of rationalization, if I am a leader, it makes me think a little bit differently about my role. What I want to be doing is study the cases where people have committed ethical or legal violations, look backward at where they started and then define my code of conduct more clearly around those initial steps. Is that where you would come down?

Ariely: Exactly. Because if you think about that, it means that the first step is incredibly dangerous.... It actually has tremendous ramifications, particularly if you think that it is an observable act. I recently came from a discussion of honor code in the military.... There is a real tradeoff between how much you punish a person who is taking the wrong step if you think about that person versus thinking about the organization. It is a very different story....

About seven years ago, there was a big honor code violation at Duke. A lot of the students started a simulation from the same number, so they ended up with the same result, so [it was clear] there were copying from each other. At the time, I was teaching at MIT, and there was a story, I think, in The Wall Street Journal. I brought the story to the class, and we were talking about the cheating at Duke, and the students said we do it all the time. Why are you expelling those students?

They were probably right.... I suspect that those students did not understand the seriousness of what they were doing. They were probably in the system where people were collaborating for a long time, and there was deterioration.... The students probably got a harsher punishment than they would deserve if you thought of them as individuals.

But for the organization, it really helped. Six years later, it is really clear to the students what [is] right and the wrong.... There was this interesting tradeoff between the benefit of the individual and what we think about forgiveness versus what we think about the cohesiveness of the organization and how clear the rules are.

Grant: Yes. It is a classic question of retribution versus deterrence. It seems like, in this case, you are at least willing to err a little bit on the side of deterrence even if it unfairly punishes a few.

Ariely: Yes. I am not sure that I would call it deterrence, but it would basically be for the strictness and clarity of the rules - or the clarity of the norms and what is the right and wrong behavior.

Grant: This is a little bit frightening if we put together the different pieces of the puzzle that you have constructed. If slippery slopes happen, and most people are willing to cheat a little bit, what do you do to prevent people from taking that first step?

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Ariely: Codes of conduct are incredibly important for companies. But companies are wrong in how flexible they make these codes of conduct. When you have a serious code, it is easier to see if you are on the right or wrong side of it. When you have something that is very fuzzy, it is hard for us to see that we are violating it. Think about something like Alcoholics Anonymous. The rule is very clear. No drinking whatsoever. What would happen if the rule was half a glass a day? We would get very big glasses. You would drink today on account of tomorrow. There will be all kinds of tradeoffs. In general, we do not like very clear-cut rules because we understand the exceptions. We understand that we cannot create a good rule. But good rules really help us. They help us to figure out for ourselves what is good. Dieting, by the way, is the same thing. If you have a clear rule about what you eat and do not eat, it is really easy....

If you think about the human brain as being a rationalization machine that is going to rationalize what is good for us in the short term - not what is good for us in the long term and not what is good for the organization - rules eliminate some of that ability to rationalize. It is not that it is a panacea because, if you create strict rules, it makes lots of things much more complex. But I think we need those....

Grant: Where do your ideas come from?

Ariely: Very infrequently from academic papers. Mostly it is from talking to people. Some from reading the news and seeing something interesting, but lots from talking to people and seeing what people are struggling with and what are some of the challenges. In the last six years, I am also getting lots of emails from people who read stuff that I wrote about and ask me questions. I will give you one example.

I got an email from a woman who told me that she was diagnosed with brain cancer, and she asked me how to tell her kids. I was a burn patient, and I did studies on how to remove bandages - remove them quickly, remove them slowly - and she made the connection. She said, should she tell them all at once? Should she tell them over time?

Now it is not exactly the same question as removing bandages, so I did not have an answer for this. I talked to all my physician friends. Nobody knew what is the right answer. I was in New York 10 days later, so I met her for coffee, and we discussed this.... Eventually the conclusion was, if her kids ever found out that she was misleading them, it would be very hard to regain trust so maybe she should tell them all at once. But this question of how you reveal bad news started becoming very interesting for me. This was about three years ago.

Now we have a big project in which we are following doctors around the hospital observing how they tell really bad news to patients, [such as] cancer, end-of-life treatment. We are trying to figure out what are the mistakes and what are the better ways to do that. Things like that happen, where you basically say, my goodness, this is a big question that people are struggling with. We do not know the answer. Maybe we should try and figure it out....