Regulating Ethical Failures: Insights from Psychology

Erasmus Centre of Behavioural Business Ethics
Passionate about Trust

Behavioural Business Ethics Conference

ERASMUS UNIVERSITEIT ROTTERDAM

Regulating Ethical Failures: Insights from Psychology

Behavioural Business Ethics Conference

21 and 22 October 2009

About
Rotterdam School of Management, Erasmus University

RSM is the business school of Erasmus University. RSM aims to be at the leading edge of future management issues by offering a cohesive package of university-level education, research and professional services, and by being attractive to an international market of students, executives and commercial enterprises. The school offers an extensive portfolio of management courses (including BSc in Business Administration / Business Management, MSc in (International) Business Administration, part-time diploma in Business Management, PhD in General Management, (executive) MBA programmes, specialist Masters and in-company training. Most of RSM's research programmes are given at the Erasmus Research Institute of Management (ERIM). The school is a member of several leading international networks, including the Community of European Management Schools (CEMS) and the Partnership in International Management (PIM). RSM has approximately 7,200 students and 400 members of staff. RSM can boast a triple crown accreditation (AACSB, AMBA and EQUIS), as well as Dutch NVAO and KNAW for ERIM.

Over the past 35 years, Rotterdam School of Management, Erasmus University, has firmly established its reputation as one of Europe's leading business schools. Long before 'global' became an important descriptor for business education, RSM's students, faculty and staff were already reflecting the diversity of the globalising world. Just like our host country, one of the world's renowned international trading nations, RSM has continued to expand and internationalise, cementing its status as one of Europe's most international and innovative business schools. RSM offers a distinctive intellectual culture, believing that leadership can be taught through a combination of intellectual and practical challenges. We believe that the difficulties encountered working in diverse teams fosters creative new approaches in business. We enjoy a reciprocal, supportive relationship with multinational companies.

RSM encourages a flexible, broad and sometimes iconoclastic mindset in matters of business practice and research. This distinct approach has helped RSM to establish a portfolio of top-ranked programmes, as well as one of the largest and most prolific management faculties in the world.

www.rsm.nl

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Introduction

We proudly present you the first Behavioural Business Ethics Conference and welcome you as a participant. This conference is organized by the recently founded Erasmus Centre of Behavioural Ethics (www.erim.nl/behaviouralethics), which is part of the Rotterdam School of Management, one of the top three research schools in management in Europe. This conference is a perfect opportunity for you to get in contact with the foremost scholars in the field of Behavioural Ethics. We hope that by attending this conference you can deepen your insights into the new field of behavioral ethics and at the same time broaden your professional network.

We sincerely hope you will enjoy this conference, and we look forward to listening to all the great work that is being done in our field.
Kind regards,

David De Cremer   Ann Tenbrunsel

Conference schedule

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The location of the conference at both days is JB-41 (J-building, ground floor, room 41).

WEDNESDAY 21 OCTOBER

| 09.00-09.30 | Introduction dean and David De Cremer |

THEME 1: ETHICS IN A SOCIAL CONTEXT

09.30-10.00	*How Bad Apples Can Motivate Ethical or Unethical Behavior* - Francesca Gino
10.00-10.30	*Trust in Authorities as a Boundary Condition to Procedural Fairness Effects on Tax Compliance* - Marius van Dijke
10.30-11.00	Coffee break
11.30-12.00	*Restoring Human Relations in Business Education and Practice* - Bill Bottom
12.00-13.30	Lunch at Novotel

THEME 2: ETHICAL LEADERSHIP AND REGULATION

13.30-14.00	*Navigating by values: The role of ideal and counter-ideal values for followers' responses towards their leaders* - Niels van Quaquebeke
14.00-14.30	*A moral self-regulation account to ethical leadership* - Lieven Brebels
14.30-15.00:	*Developing a Theoretical Framework of Corporate Self-Regulation: Scandals, Impression Management, and the Persistence of Executive Compensation Practices in the United States* - Ed Carberry
15.00-15.30	Coffee break
15.30-16.00	*The (in)effectiveness of sanctions to promote cooperation, and the (un)willingness to impose sanctions* - Eric van Dijk
16.00-16.30	*Too much of a good thing can be bad: the irony of ethical leadership* - Jeroen Stouten
18.00-19.00	Drink at Faculty Club (H-Building 17th floor).
19.00-22.00	Dinner at Faculty club

| 09.00-09.30 | If you want it, you can have it: The effects of follower control and relational needs on leader's enactment of fair procedures - Niek Hoogervorst |

THEME 3: PSYCHOLOGICAL MECHANISMS OF ETHICAL AND UNETHICAL BEHAVIOR

09.30-10.00	*Unethical practices: Gains and losses, and why recession may breed future fraud* - Chris Reinders Folmer
10.00-10.30	*Nostalgia and Prosocial Behavior* - Constantine Sedikides
10.30-11.00	Coffee break
11.30-12.00	*High status: no pain when not contributing to a public gain* - Maarten Boksem
12.00-13.30	Lunch at Novotel
13.30-14.00	*From Competition to Sabotage, Bribery & Risk* - Niro Sivanathan

THEME 4: TRUST AND RECONCILIATION

14.00-14.30	*The importance of trust - and why most people trust too little* - Detlef Fetchenhauer
14.30-15.00	*Show me the Money: Financial Compensations and the Repair of Trust in Exchange Relations* - Pieter Desmet
15.00-15.30	Coffee break
15.30-16.00	*The Manifestation of Mob Mentalities* - Peter Kim
16.00-16.30	*Applying The Needs-Based Model To Organizational Reconciliation Processes* - Johannes Ullrich

Abstracts

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Theme 1: Ethics in a social context

How Bad Apples Can Motivate Ethical or Unethical Behavior

Francesca Gino
Kenan-Flagler Business School, University of North Carolina

Previous research has shown that group members' unethical conduct can be contagious (Gino, Ayal, & Ariely, 2009) yet others have found that people experience guilt for associated other's offense (Fortune & Newby-Clark, 2008). This talk present research examining the conditions under which "bad apples" lead to contagion or restitution. Two experiments found that in-group member's selfish act led to more selfish behavior compared to that of an out-group member only when there was no out-group observer; when an out-group observer was present, in-group member's selfish act actually led to less selfish behavior compared to out-group member's selfish act. We suggest that the presence of out-group observer triggers a self categorization process that led individuals to feel responsible of the transgressions of their in-group members. Indeed, another experiment found that guilt mediated the influence of bad apples on restitution when an out-group observer was present. Implications for both leadership and organizational settings will be discussed.

Navigating by values: The role of ideal and counter-ideal values for followers' responses towards their leaders

Niels van Quaquebeke
Rotterdam School of Management, Erasmus University

Ideals (or ideal values) help people to navigate in social life. They indicate at a very fundamental level what people are concerned about, what they strive for, and what they want to be affiliated with. Transferring this to a leader-follower analysis, our first Study (N = 306) confirms that followers' identification and satisfaction with their leaders are stronger, the more leaders match followers' ideal leader values. Study 2 (N = 244) extends the perspective by introducing the novel concept of counter-ideals (i.e., how an ideal leader should NOT be) as a second, non-redundant point of reference. Results confirm that a leader's match on ideal and on counter-ideal values have independent effects in that both explain unique variance in followers' identification and satisfaction with their leader. Study 3 (N = 136) replicates the previous results in an experimental scenario study and provides evidence for the proposed causal direction of the underlying process. We conclude that counter-ideal values might be an additional point of reference that people use to triangulate targets above and beyond ideal values and discuss the implications of our findings for value research and management practice.

Trust in Authorities as a Boundary Condition to Procedural Fairness Effects on Tax Compliance

Marius van Dijke
Open Universiteit Nederland

In this talk, I address the role of trust in authorities and procedural fairness on voluntary compliance with tax authorities. Building on fairness heuristic theory, I develop the argument that particularly low trust in authorities makes people carefully observe the fairness with which the tax office enacts procedures. Hence, procedural fairness should positively influence personally endorsed norms regarding taxpaying and voluntary tax compliance particularly among citizens with low trust in authorities. Results from field and experimental work will be presented.

Restoring Human Relations in Business Education and Practice

Bill Bottom
Washington University in St. Louis

Near the end of the last century, rational choice theory displaced behavioral science in business research and human relations in the business school curriculum. This paper examines how this displacement occurred and how it impacted public policy and business practice. Research in anthropology, psychology, sociology, and neuroscience provides the foundation for a new human relations model that can inform education, business practice and public policy.

Theme 2: Ethical leadership and regulation

A moral self-regulation account to ethical leadership

Lieven Brebels
Rotterdam School of Management, Erasmus University

A key aspect of ethical leadership includes the extent to which leaders enact fair procedures when making decisions. Drawing upon insights from the emerging field of moral self-regulation, we examine the role of leader's moral identity centrality and managerial regulatory orientation toward gains versus losses in leader's engagement in fair decision-making procedures. Several studies using different methods (scenario experiment, single source field study, and multi-source study) and relying on either chronic or working differences in the relevant constructs are presented.

Developing a Theoretical Framework of Corporate Self-Regulation: Scandals, Impression Management, and the Persistence of Executive Compensation Practices in the United States

Ed Carberry
Rotterdam School of Management, Erasmus University

The recent financial crisis has renewed efforts by the state to regulate corporations, executives, and capital markets. The tone and substance of such efforts, however, are not new. The scandals at Enron and other firms in 2002 generated much debate about reforming and regulating corporate governance, particularly executive compensation. Although the passage of the Sarbanes-Oxley Act it was hailed as a significant reform by its supporters, corporate governance structures and the ways in which decisions about executive compensation are made remain firmly in place. In this paper, I use the post-Enron context to develop a theoretical framework for understanding some of the mechanisms that prevent new regulations by the state from being implemented. More specifically, I draw upon institutional organizational theory, social psychology, and the literature on social movements to argue that when stakeholders challenge the legitimacy of corporate governance practices, firms engage in impression management to portray themselves as more or less virtuous actors who are capable of self-regulation.

The (in)effectiveness of sanctions to promote cooperation, and the (un)willingness to impose sanctions

Eric van Dijk
Leiden University

In this talk I will address a series of studies on two issues: (1) The positive and detrimental effects of sanctions on cooperation, and (2) the willingness and reluctance of people to impose sanctions on others. The first part will concentrate on the effects of sanctions on trust. The second part will focus on people's preferences for rewards over sanctions, especially in situations of uncertainty.

Too much of a good thing can be bad: the irony of ethical leadership

Jeroen Stouten
University of Leuven

Research on how ethical leadership affects employees is still in its early stages. Yet, research convincingly showed that ethical leadership positively influences a range of employees' outcomes such as OCB, affective commitment, ethical behavior, and job satisfaction. However, can leaders also be too concerned with ethics by excessive rule following and rigidity instead of flexibility? A series of studies will be presented in which I show the dynamic relation of ethical leadership and organizational outcomes.

If you want it, you can have it: The effects of follower control and relational needs on leader's enactment of fair procedures

Niek Hoogervorst
Rotterdam School of Management, Erasmus University

Research has shown that a fair treatment by authorities can have many positive effects on human beings, as being treated fairly gives people both a sense of control over outcomes and a sense that one is a valued and accepted member of a social collective. It is however unclear when leaders actually enact these fair procedures. I will present a series of studies, in which we tested whether leaders take followers' control and relational needs into account when enacting fair procedures.

Theme 3: Psychological mechanisms of ethical and unethical behavior

Unethical practices: Gains and losses, and why recession may breed future fraud

Chris Reinders Folmer
Tilburg University

Despite authorities' efforts, unethical practices remain pervasive in social life, and massive recent scandals have rocked the business world. The public eye tends to focus particularly on fraudulent practices that have enabled perpetrators to accumulate massive gains. Psychological insights on decision making, however, suggest that achieving gain often is less important for individuals than preventing loss. Therefore, while gain tends to be emphasized as the root of many scandals, we suggest that unethical practices in fact may be particularly likely when people are faced with potential losses.

Two social dilemma studies provide support for our reasoning. Specifically, our studies reveal that people indeed are more inclined toward unethical behaviour – in this case deceiving others – when doing so enables them to prevent a loss, rather than to achieve an equivalent gain. Moreover, our findings suggest that victims also consider deception to be more justified and less immoral when perpetrators deceived them to prevent loss, rather than to achieve gain. In light of the current economic slump and the massive losses that companies face, our findings therefore imply that the current economic climate may well provide a breeding ground for the business scandals of the future.

Nostalgia and Prosocial Behavior

Constantine Sedikides
University of Southampton

Nostalgia, a sentimental longing for a personally experienced and valued past, is a social emotion. It refers to significant others in the context of momentous life events, and it fosters a heightened sense of interpersonal bonding or social connectedness. On this basis, it was hypothesized that nostalgia promotes charitable intentions and behavior. Results showed that nostalgia increased charitable intentions as well as tangible charitable behavior, and the effect was not due to positive mood (Experiments 1-2). Instead, the effect of nostalgia on charitable intentions was mediated by empathy (Experiment 3). In comparison to other factors affecting charitable giving, nostalgia strengthened the identifiable victim effect (Experiment 4).

Finally, the effect of nostalgia was more pronounced for insecurely-attached than securely-attached individuals (Experiment 5). From an applied perspective, our results may suggest that within organizations nostalgia can be used as an important intrapersonal force promoting moral climates in which interactions are cooperative rather than competitive.

High status: no pain when not contributing to a public gain

Maarten Boksem
Tilburg University

Using neuroimaging methods, we show that high status individuals experience not contributing to a public good as less painful compared to medium or low status individuals. These findings may have important implications for our view on (un)ethical behaviour of people in top positions in business.

From Competition to Sabotage, Bribery & Risk

Niro Sivanathan
London Business School

Competitions are designed to select the best candidate and to increase the effort of those competing for the prize. However, effort may not always be directed toward the work at hand; instead, people may decide that their chances of winning will be greatest if they redirect their efforts toward a) sabotaging their competitors, b) bribing prize administrators and/or c) taking excessive risks. I study when and why competitors resort to such ruinous behaviors and how these behaviors systematically vary with their relative rank in the competition. Finally I explore a solution for these unintended behaviors.

Theme 4: Trust and reconciliation

The importance of trust - and why most people trust too little

Detlef Fetchenhauer
University of Cologne

In this presentation I will outline the importance of trust for all kinds of economic transactions and will shortly review empirical evidence concerning the influence of trust on economic success, both on an organizational and a national level. Then, I will argue that people tend too be overly cynical when judging the trustworthiness of others. I will present experimental data showing that this cynicism can be explained by the asymmetric feedback that live is giving to us concerning unwarranted trust and unwarranted distrust, respectively. In most cases life will inform us if we have been overly trustful and the experience if being betrayed might linger in our memory for a long time. To the contrary, we will seldom learn about instances of unwarranted distrust, because to find out whether an interaction partner is trustworthy, we have to trust that partner in the first place.

Show me the Money: Financial Compensations and the Repair of Trust in Exchange Relations

Pieter Desmet
Rotterdam School of Management, Erasmus University

Scholars have only recently begun to examine how trust might be restored again in the aftermath of unethical behavior. While research conducted so far focused mainly on the effectiveness of verbal offender tactics, such as apologies, a commonly used strategy in response to distributive harm is the provision of a financial compensation to the victim. In this presentation, I will provide an overview of current findings and pending research that address the questions of whether, how and when financial compensations can restore trust effectively.

The Manifestation of Mob Mentalities

Peter Kim
Marshall School of Business

Transgressions can require the repair of trust not just with individuals but also with larger collectives. Yet the question of how individuals and groups might differ in response to trust repair efforts has been largely neglected, and the implications of research at all pertinent to this issue seem ambiguous and contradictory. The present inquiry seeks to address these limitations by investigating when groups would allow greater trust repair than individuals and when groups would instead become an intolerant mob, as well as the ways in which transitions between these individual and collective modes of evaluation can affect such assessments.

Applying The Needs-Based Model To Organizational Reconciliation Processes

Johannes Ullrich
Goethe University Frankfurt

The Needs-Based Model (NBM) of reconciliation (Shnabel & Nadler, 2008) assumes that conflicts threaten different psychological resources for victims and perpetrators and that these differential threats form barriers to reconciliation. Before reconciliation can occur, victims need to restore their sense of power, and perpetrators need to restore their identity as moral actors. Thus, the model emphasizes that both parties involved in a conflict need to engage in active restoration processes, providing the other party with the appropriate resource of either empowerment or acceptance. The present paper discusses recent applications of the NBM to intergroup reconciliation and outlines the NBM's potential to illuminate intra- and intergroup processes of trust repair and reconciliation in organizational contexts such as Mergers & Acquisitions, Downsizing, and other arenas for organizational injustice and conflict.

Practical
Information

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Format of the talks at the conference
All presenters have a slot of 30 minutes. To provide enough time for discussion,
we suggest reducing time of presentation to a maximum of 20 minutes. This would allow
us a discussion time of at least 10 minutes.

Technical details
PC and LCD computer projector are provided at the conference venue. Our computers are
Windows based PC's. You only have to bring your presentation on a USB-stick. Please use
Power Point 2003 (or
older) for your presentation. If you need any additional means for your presentation,
please contact us as soon as possible.

Conference Dinner
In addition to lunches and several coffee breaks we will also offer you a conference diner
on Wednesday evening. The dinner will be held at the Faculty club on the 17th floor of
the H-building where we will have a nice view on the city of Rotterdam.

Contact details:
Niek Hoogervorst
E-mail: nhoogervorst@rsm.nl
Mobile Phone: +31 616429850

Or: Maarten Wubben
E-mail: mwubben@rsm.nl
Mobile Phone: +31 610087747

Or: Paul van Keulen
E-mail: st.cremer@rsm.nl
Mobile phone: +31 626938784

The address of the university
Campus Woudestein
Burgemeester Oudlaan 50
3062 PA Rotterdam

The location of the conference is JB-41 (J-building, ground floor, room 41).

Route to university

By Car

From the A-16 motorway take the exit 'Centrum' (exit number 25). Follow 'Centrum', also on the roundabout Kralingse Plein (Abram van Rijckevorselweg). At the first traffic lights turn right (Burgemeester Oudlaan). Turn right immediately after tram terminus (see map EUR Woudestein). Parking (parking fees will be charged).

By Metro

From Rotterdam Central Station

With tram 21 in direction of De Esch. Get off at stop Woudestein.

With tram 7 in direction Woudestein or Burg. Oudlaan. Get off at terminus.

With metro in direction of Spijkenisse/Slinge. Change at station Beurs on metro in direction of Capelle a/d IJssel, Ommoord or Nesselande. Get off at stop Kralingse Zoom
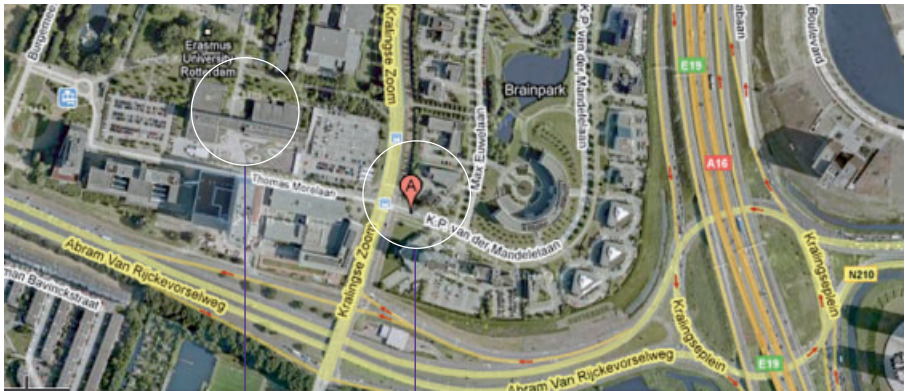
From station Rotterdam Alexander

with metro in direction of Schiedam Centrum/Spijkenisse. Get off at stop Kralingse Zoom.
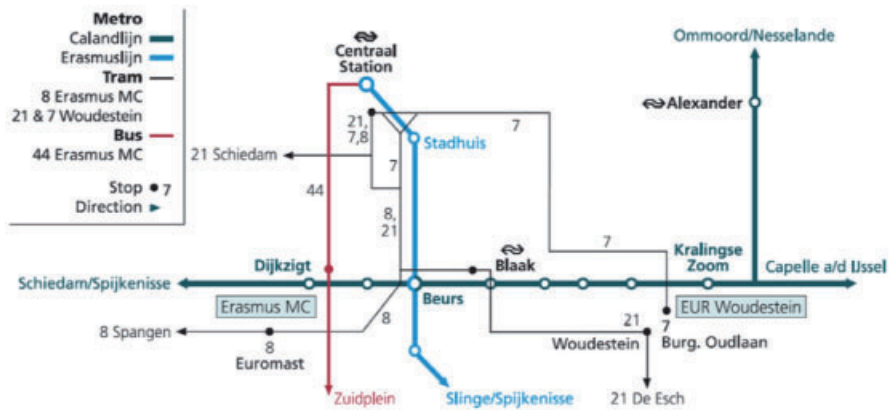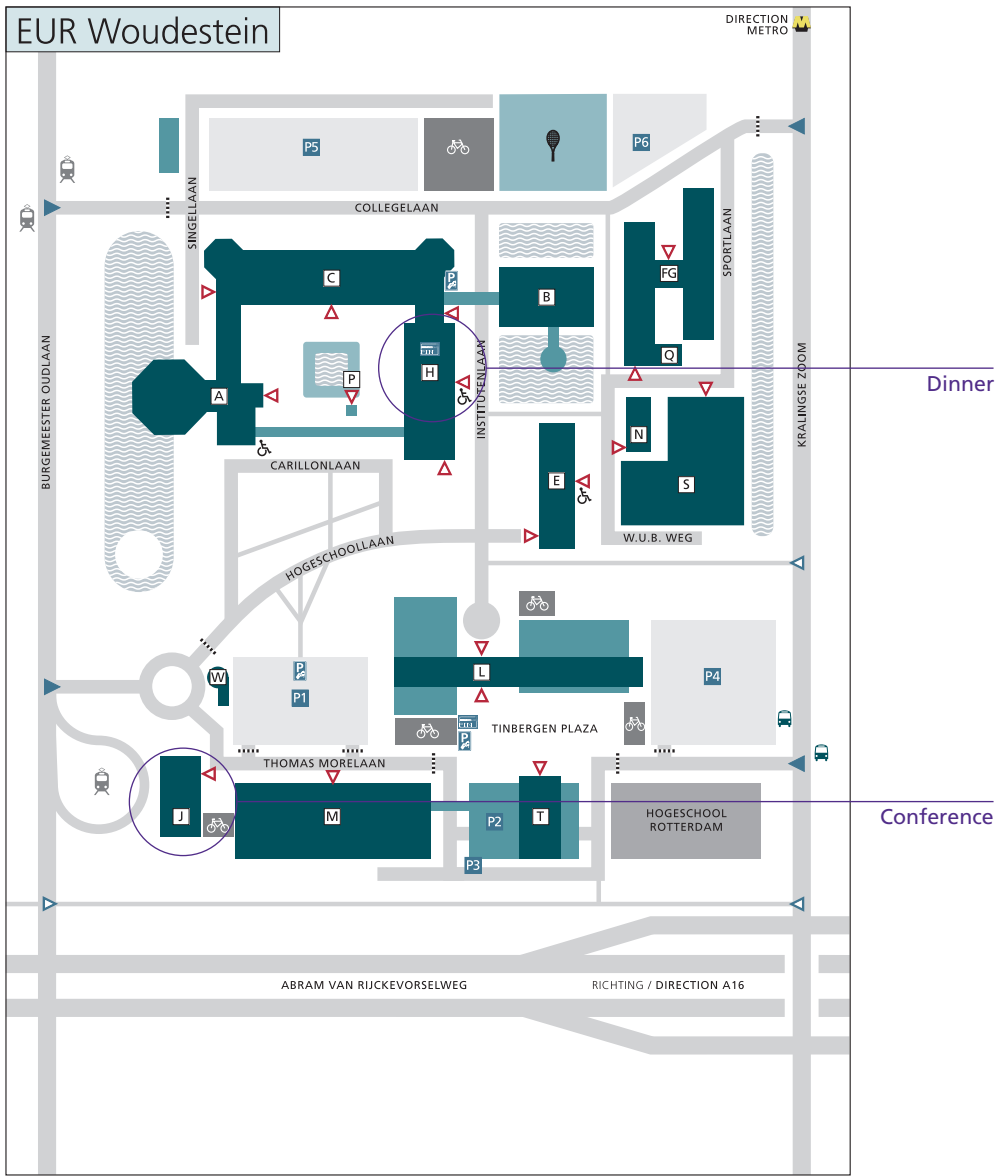
Address of NOVOTEL hotel
K.P. van der Mandelelaan 150
3062 MB Rotterdam
010 2532532

The hotel is on a 5 minute walk of the conference location.

University   Hotel

A = AULA   P = PARKEERPLAATS / PARKING   M = ERASMUS EXPO & CONGRESS CENTRE

List of participants

Alain Van Hiel	Ghent University E-mail: alain.vanhiel@ugent.be
Ann Tenbrunsel	University of Notre Dame E-mail: Ann.E.Tenbrunsel.1@nd.edu
Barbara Wisse	University of Groningen Email: B.M.Wisse@rug.nl
Bill Bottom	Washington University in St. Louis E-mail: bottomb@wustl.edu
Chris Reinders Folmer	Tilburg University E-mail: C.P.ReindersFolmer@UvT.nl
Christian Tröster	Rotterdam School of Management, Erasmus University E-mail: ctroester@rsm.nl
Constantine Sedikides	University of Southampton E-mail: C.Sedikides@soton.ac.uk
David De Cremer	Rotterdam School of Management, Erasmus University E-mail: DdeCremer@rsm.nl
Detlef Fetchenhauer	University of Cologne E-mail: detlef.fetchenhauer@uni-koeln.de
Edward J. Carberry	Rotterdam School of Management, Erasmus University E-mail: ECarberry@rsm.nl
Eric van Dijk	Leiden University E-mail: dijk@fsw.leidenuniv.nl
Erik de Kwaadsteniet	Leiden University E-mail: kwaadsteniet@fsw.LeidenUniv.nl
Francesca Gino	Kenan-Flagler Business School, University of North Carolina E-mail: fgino@unc.edu
Gerben Langendijk	Open Universiteit Nederland E-mail: Gerben.Langendijk@ou.nl
Hans van Oosterhout	Rotterdam School of Management, Erasmus University E-mail: joosterhout@rsm.nl
Ilse Cornelis	Ghent University E-mail: ilse.cornelis@UGent.be
Jeroen Stouten	University of Leuven E-mail: jeroen.stouten@psy.kuleuven.be
Johannes Ullrich	Goethe University Frankfurt E-mail: ullrich@psych.uni-frankfurt.de
Joost Leunissen	Rotterdam School of Management, Erasmus University

Lieven Brebels	Rotterdam School of Management, Erasmus University E-mail: Lbrebels@rsm.nl
Lucas Meijs	Rotterdam School of Management, Erasmus University E-mail: lmeijs@rsm.nl
Maarten Boksem	Tilburg University E-mail: m.a.s.boksem@gmail.com
Maarten Wubben	Rotterdam School of Management, Erasmus University E-mail: mwubben@rsm.nl
Marius van Dijke	Open Universiteit Nederland E-mail: marius.vanDijke@ou.nl
Michael Bashshur	Unversitat Pompeu Fabra E-mail: michael.bashshur@upf.edu
Niek Hoogervorst	Rotterdam School of Management, Erasmus University E-mail: NHoogervorst@rsm.nl
Niels van Quaquebeke	Rotterdam School of Management, Erasmus University E-mail: nquaquebeke@rsm.nl
Niro Sivanathan	London Business School E-mail: nsivanathan@london.edu
Paul van Keulen	Rotterdam School of Management, Erasmus University E-mail: st.cremer@rsm.nl
Peter Kim	Marshall School of Business E-mail: kimpeter@usc.edu
Pieter Desmet	Rotterdam School of Management, Erasmus University E-mail: PDesmet@rsm.nl
Rob van Tulder	Rotterdam School of Management, Erasmus University E-mail: rtulder@rsm.nl
Rolf van Dick	Goethe University Frankfurt E-mail: van.dick@psych.uni-frankfurt.de
Steffen Giessner	Rotterdam School of Management, Erasmus University E-mail: sgiessner@rsm.nl
Svetlana Militsyna	Rotterdam School of Management, Erasmus University
Taco Reus	Rotterdam School of Management, Erasmus University E-mail: treus@rsm.nl
Woody van Olffen	Rotterdam School of Management, Erasmus University E-mail: wolffen@rsm.nl

ERASMUS CENTRE OF BEHAVIOURAL BUSINESS ETHICS

The numerous scandals in business such as those at AIG, Tyco, WorldCom, and Enron have raised many concerns about the emergence of unethical and irresponsible behavior in organizations. The seemingly unending occurrence of instances of corruption, in both business and politics, has also activated consciousness about ethics in general and business ethics in particular. Although there may be no universal definition of business ethics, and one scholar likened defining it to "nailing jello on a wall," most definitions focus on evaluating the moral acceptability of the actions of organizational leaders and their employees. However, here at the Erasmus Centre of Behavioural Ethics (ECBE) we argue that such a view is too narrow in scope. Rather than the source of unethical behaviour being a lack of information or misapplication of ethical principles, we start from the idea that many ethical failures can be explained by a lack of awareness that one is even facing an ethical problem. This view helps to explain why, despite the pervasiveness of contemporary ethical failures and irresponsible actions, many managers still maintain the belief that they are ethical people. In line with this perspective, we advocate that in addition to a prescriptive approach in which a moral principle is communicated and evaluated, we also need a behavioural approach which examines how individuals make actual decisions and engage in real actions when being faced with ethical dilemmas (i.e. a descriptive approach).

www.erim.eur.nl/behaviouralethics

ERIM

The Erasmus Research Institute of Management (ERIM) is the Research School (Onderzoekschool) in the field of management of the Erasmus University Rotterdam. The founding participants of ERIM are Rotterdam School of Management (RSM) and Erasmus School of Economics (ESE). ERIM was founded in 1999 and is officially accredited by the Royal Netherlands Academy of Arts and Sciences (KNAW). The research undertaken by ERIM is focused on the management of the firm in its environment, its intra- and interfirm relations, and its business processes in their interdependent connections.

The objective of ERIM is to carry out first rate research in management, and to offer an advanced doctoral programme in Research in Management. Within ERIM, over three hundred senior researchers and PhD candidates are active in the different research programmes. From a variety of academic backgrounds and expertises, the ERIM community is united in striving for excellence and working at the forefront of creating new business knowledge.

Erasmus Research Institute of Management - ERIM