THE PSYCHOLOGY OF UNETHICAL BEHAVIOR IN THE FINANCE INDUSTRY

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Chapter overview
The finance industry has been singled out as a case of rampant unethical behavior and corporate greed. Drawing on scientific research on unethical behavior from the disciplines of psychology, behavioral ethics, behavioral economics, and organizational behavior, I discuss three characteristics of the finance industry that might explain the high level of unethical behavior in this domain of work. I review research explaining how the disproportionate representation of power and wealth might affect how people working in finance approach social relationships, with important consequences for their propensity to behave unethically. Next, I review the literature suggesting that competitive and demanding work environments that characterise many domains of finance affect the likelihood of unethical behavior both directly and through their effect on employees’ level of available self-regulatory resources. I also argue that the finance industry is marked by a low saliency of those affected by unethical actions and a low sense of personal agency in unethical behavior, and present work showing these factors that may prompt and license unethical conduct. Finally, I discuss how the understanding of the characteristics of the finance industry that contribute to the high level of unethical behavior in this domain may inform decision makers in regulating and managing unethical behavior in finance.

Unethical behavior in the finance industry
The finance industry has been singled out as a case of rampant unethical behavior and corporate greed (Das, 2011; Morgenson, 2011; Partnoy, 2009; Pringle, 2012). A recent survey conducted in the U.S. and the U.K. among senior professionals working in the financial sector (including fund managers, bankers, analysts and asset managers) found that over a quarter of respondents observed or had firsthand knowledge of unethical behavior in their organization (Labaton Sucharow, 2012). Nearly one-fourth of respondents said employees in their industry may need to engage in unethical behavior to be successful. About one-third said they feel pressured by bonus or compensation plans to engage in unethical conduct and 16% even said openly they would commit criminal acts at work to attain personal benefit (e.g., insider trading) if they could get away with it.

In this chapter, I draw on scientific research on unethical behavior from the disciplines of psychology, behavioral ethics, behavioral economics, and organizational behavior, to outline how factors specific to the finance industry may lead to such shocking levels of unethical conduct in this domain of work. By finance industry, I refer to the sector of economy comprising “establishments primarily engaged in financial transactions (transactions involving the creation, liquidation, or
change in ownership of financial assets) and/or in facilitating financial transactions” (Bureau of Labor Statistics, 2013). I consider how features that characterize this industry, such as a disproportionate representation of power and wealth (compared to other domains of work), competitiveness, and low salience of interpersonal impact contribute to unethical behavior. In this chapter, I broadly refer to unethical behavior as behaviors that violate the universally-held standards of morality, such as causing unprovoked harm (e.g., pain or death), deceiving, and breaking promises (Bok, 1995; Haidt & Kesebir, 2010; Küng, 1996; Walzer, 2000). Such universal moral standards can also be conceptualized as rules of social organization that allow people to organize and regulate social action in a way that minimizes, at the societal level, the negative impact of a person’s behavior on others (Baier, 1958; Foot, 1978; Warnock, 1971). By identifying the conditions that promote unethical behavior in the finance industry, this chapter may help predict and manage such problematic conduct.

The chapter is organized as follows. The first section focuses on power and money in the finance industry. The finance industry is characterized by exceptional levels of power (social influence) and wealth. I present research showing these factors may have direct consequences for people’s propensity to engage in unethical behavior and may thus constitute one of the explanations for the extreme levels of unethical behavior in the finance industry. The subsequent section focuses on competitiveness, another hallmark of work in the finance industry. Research suggests that competitive task structure can affect the tendency to engage in unethical behavior. More generally, cognitive demands and time pressure introduced by highly competitive work can also affect unethical behavior by influencing the availability of self-regulatory resources. Third section considers how the salience of interpersonal impact, or the appreciation that the given action one is engaging in is harming others (and is thus unethical), may explain the high levels of unethical behavior in the finance industry. I review evidence suggesting that unethical behavior in the finance industry may be more widespread because the victims of unethical behavior are not salient and because the sense of personal involvement and agency in the harm caused by unethical behavior is low. The concluding section builds on this analysis to propose ways in which unethical behavior in the finance industry can be contained through informed social action.

**Power and wealth in the finance industry**

The finance industry is marked by uniquely high levels of power and wealth (Bell & Van Reenen, 2013; Philippon & Reshef, 2012). At the level of the entire finance industry sector, wages are more than double of those in the rest of the economy in both the U.S. (Bureau of Labor Statistics, 2012) and the U.K. (Weale, 2009). In 2007, the top 20 Wall Street fund managers earned an average of $658m, with some individuals’ compensation packages exceeding a billion dollars yearly (Ozanian & Schwartz, 2007). Even amidst the economic crisis, while wages in many sectors were dropping, wages in the finance industry rose even further (Williams, 2013). This abundance promotes within-industry social norms and a mindset that sets the finance industry apart from the rest of the economy and often makes its culture
difficult to understand from the perspective of the public. In just one among many recent examples of the stark differences in the standards of personal outcomes expected from work between the finance industry and the rest of the society, the chairman of the Royal Bank of Scotland was criticized for describing its chief executive’s compensation package as “modest;” it included £1.1m salary and £6m in bonuses yearly (Treanor, 2013).

Research in sociology and social psychology suggests that social position can exert a profound influence on the thoughts, feelings, and behavior of the individual (Emerson, 1962; French & Raven, 1959; Kelley & Thibaut, 1978; Ng, 1980). Lord Acton famously warned that “Power corrupts, and absolute power corrupts absolutely.” If power indeed leads to negative interpersonal consequences, as the popular belief suggests, then this effect might be an important explanation for the widespread unethical behavior in the finance industry, an industry marked by unprecedented power and wealth. Below I examine this potential explanation in detail.

Psychological consequences of power
The finance industry has been described as a high-power milieu, and financial professionals are often referred to as the “Masters of the Universe” (Das, 2011; McGee, 2011; Wolfe, 1987). The influence of the finance industry over other domains of business activity and everyday life provides its professionals with power unrivaled in the business world (Cohan, 2011).

Psychological research shows that differences in one’s power profoundly affect individuals’ psychology and behavior, including interpersonal behavior. Power can be defined in this context as an individual’s “capacity to modify others’ states by providing or withholding resources or administering punishment” (Keltner, Gruenfeld, & Anderson, 2003, p. 265). The approach / inhibition theory of power suggests that because the powerful control others’ outcomes, and depend less on others for the attainment of their own goals, power elicits a mindset focused on rewards (Keltner et al., 2003). This, in turn, is hypothesized to make the powerful more concerned with their own interest and less attentive to others and others’ interests.

Empirical research that examined how power affects different domains of interpersonal behavior generally found evidence consistent with this prediction. In an early empirical test, Kipnis (1972) gave a range of institutional powers to one group of participants ostensibly managing workers. Participants in the control group engaged in the same task, but were not told they had the same level of power. The study found that power made participants more willing to exert influence on the workers to accomplish the tasks and also made participants show less concern for the workers.

Gruenfeld, Inesi, Magee, and Galinsky (2008) examined how power affects individuals’ tendency to objectify other people (consider them as a means to achieving their own objectives). The researchers manipulated power in different ways: For instance, participants were asked to think about a work relationship either
with a subordinate (thus eliciting a sense of power) or a coworker at the same hierarchical level (the control condition); another manipulation assigned some participants to be either the boss or the subordinate in a business simulation (thus manipulating power by varying their actual social position). Following such power manipulations, the researchers examined participants’ behavior toward individuals who were either consistent or inconsistent with the participant’s focal goal. The studies found that across a range of responses, from interpersonal liking to hiring and friendship preference, power made people more likely to favor people instrumental to their personal objectives. Thus, power increased the objectification of others.

The apparent reduced concern for others on the part of the powerful is also argued to stem from the fact that due to their superior social position, the powerful are less dependent on others for their own outcomes. Some research focused specifically on whether power reduces the concern for others. Van Kleef et al. (2008) examined whether power reduced reciprocal emotional responses to another person’s suffering. Participants who reported a higher sense of power felt less distress and less compassion while hearing about an experience of suffering by another person. These responses were mediated by a lower affiliation motivation on the part of the powerful, supporting the interpretation that the powerful invest less in others because they are less dependent on others for their outcomes.

Another research looked at the effect of power on perspective taking, or the tendency to assume the perspective of others and imagine their emotions, perceptions, and motivations (Galinsky, Magee, Inesi, & Gruenfeld, 2006). The researchers expected that because the powerful are less dependent on others, a greater sense of power should reduce the tendency to take the perspective of others. Participants’ sense of power was manipulated by asking them to recall experiences in which they had power over another person versus incidents in which someone had power over them or neutral experiences. Results showed that the induced sense of power made participants exhibit less perspective taking, measured by examining different behaviors. For instance, in one study, participants were asked to write an “E” on their forehead so that another participant can read it. Power made participants more likely to draw an E on their forehead in a self-oriented direction (demonstrating less of an inclination to adopt another person’s visual perspective). In another study, participants were shown a series of pictures of people and were asked to decode the emotion that the person is feeling. Power led to lower accuracy in interpreting others’ emotion. Taken together, the results of the research on the effect of power on interest in and concern for others reveal an upsetting fact: Those who wield the most power are also those that seem to show the least concern about others.

While this research strongly suggests that the unique concentration of power and influence in the finance industry might in itself prompt psychological tendencies that lead to more unethical decisions, some research also directly tested that explanation. Building on the work showing greater self-interest among the powerful and lower concern for others described above, Pitesa and Thau (2013b) examined the effect of power in the context of financial investment decisions made under moral hazard using others’ funds. In this situation, the decision maker is given an
opportunity to invest others’ funds in a risky project, but is insulated from any personal losses. The study context thus broadly resembles the moral hazard problem identified as one of the key reasons for unethical behavior in the finance industry (Dowd, 2009; Hellmann, Murdock, & Stiglitz, 2000). Moral hazard, as conceptualized in this research, refers to situations that occur whenever “incentive system that surrounds some set of transactions (and that may or many not be bound by a contract) involves an inducement (usually unintended) to one or more of the parties to act in an immoral manner” (Nowak & O’Sullivan, 2012, p. 149).

A topical example of unethical behavior under moral hazard is the 2008 subprime mortgage crisis. Previously, banks held mortgages to maturity, and therefore took a loss if the mortgage holder defaulted, which made them careful with respect to whom they lent to. However, when banks started selling mortgages on the secondary market (securitizing them), they no longer had to bear the consequences of defaults. This created moral hazard, as banks were in the position to take as much risk in terms of whom they lent to as they wanted and transfer the potential negative effects to the buyers in the secondary market. In 2006 alone, banks originated almost three million subprime loans, taking unfathomable risks in terms of the relative financial solidity of the borrowers, collecting record fees for originating the loans, and transferring most of the risk to investors in the secondary financial market. Several months later, the subprime mortgage crisis began, dragging the world into one of the worst financial crises in history. Research by Pitesa and Thau (2013b) found support for the notion that sense of power contributes to self-serving behavior when agents make financial investment decision using others’ funds under moral hazard. Power (either primed using a recall task manipulated by assigning participants to different roles) made participants invest greater amounts of others’ funds in risky investments, thus increasing potential gains for themselves, but exposing others to a greater risk of potential loss.

Apart from causing a greater focus on personal rewards, and a lack of concern for others, power may also have implications for unethical behavior by affecting the expression of people’s personal dispositions. Those in power have more freedom to pursue their personal goals than do those lacking power, who are more constrained by their social environment (Galinsky, Magee, Gruenfeld, Whitson, & Liljenquist, 2008). Building on this reasoning, it follows that power should increase the consistency between dispositions and behavior, even in the moral domain. As outlined below, research provides support for this prediction: Power liberates immoral individuals to pursue their self-interest at the expense of others’, but it also empowers moral individuals to follow their moral character and act more ethically.

One way in which research conceptualizes temporally stable between-individual differences in the importance of moral values is moral identity (Aquino & Reed, 2002; Aquino, Reed, Thau, & Freeman, 2007). A person’s moral identity is understood as a complex knowledge structure comprised of moral values, goals, traits, and behavioral scripts (Aquino, Freeman, Reed, Lim, & Felps, 2009; Aquino & Reed, 2002). Lapsley and Lasky (2001) define a high moral identity person as someone “for whom moral schemas are chronically available, readily primed, and easily activated
for information processing” (p. 347). Consistent with the notion that power amplifies the expression of people’s dispositions, research by DeCelles, DeRue, Margolis, and Ceramic (2012) found that although power caused people with low moral identity to act more unethically (e.g., taking more resources for the self at the expense of others in an experiment, and engaging in a range of deviant behaviors at work), power led high moral identity people to act more ethically. Similarly, Pitesa and Thau (2013a) found that power makes people more likely to disregard their social environment when making (un)ethical decisions and instead follow their internal dispositions. For instance, they found that people who are more Machiavellian (a personality construct emphasizing preferences for self-interested behavior at the expense of others) negotiate more unethically when primed with power. In contrast, those who are less Machiavellian (and therefore averse to self-interested behavior at the expense of others) negotiated more ethically when primed with power. Taken together, this stream of research shows that another mechanism by which power may affect propensity for (un)ethical conduct is by liberating people to pursue their internal dispositions, for better or worse.

In conclusion, research shows that power, one of the hallmarks of the modern finance industry, has profound psychological effects on those who possess it. Most research demonstrates more self-interested behavior among the powerful, and thus gives scientific support to the colloquial notion that power corrupts. Power may thus be one of the explanations for the high levels of unethical behavior in the finance industry. However, research on the psychology of power also shows that for highly moral individuals, power does not corrupt (and may even lead to more moral behavior), suggesting a tremendous importance of selecting people with strong moral characters in the domain of finance, and indeed anywhere that power is entrusted.

Psychological consequences of money

More than any other domain of human activity, the finance industry is focused on money. Although today people take money and its role in the world of business for granted, research in anthropology (Fiske, 1992) and social psychology (Vohs, Mead, & Goode, 2008) shows that differences in the focus on money may be relevant for how people construe and engage in social interactions.

At the most general level, money implies quantifying the value of real-world phenomena (Simmel, 1990 [1907]). Weber believed quantification to be the very essence of rationalized capitalistic economic activity (1992 [1930]). He noticed that quantification increasingly permeated modern life, leading to a “specifically modern calculating attitude” (Weber, 1978 [1956], p. 86). In the everyday life of business activity, quantification became an essential part of organizational social language used to legitimize organizational conduct (March, 1987).

Although monetization and quantification produce tremendous benefits in terms of efficiency of conducting business, the focus on money may come at a price in terms of the quality of social interactions. Quantification, propelled by the growing importance of knowledge and technical expertise, may depersonalize social relations. Impersonality in social relations is a threat to ethical behavior, which depends on
empathy and humane, personal construal of social relationships (Gino, Shu, & Bazerman, 2009; Small & Loewenstein, 2003). Simmel (1990 [1907]), in his analysis of the role of money in modern life, proposes that quantification produces the uniquely “calculating character of modern times” shifting people’s attention towards “measuring, weighing, and calculating” (pp. 443–444), promoting intellectualization at the expense of emotional faculties. Thus, by reducing empathetic disposition and instead promoting deliberative and calculative mindset, the focus on money may have negative interpersonal consequences and may lead to an increased objectification of other people.

Recent research provides empirical support for these arguments. In a series of experiments, Zhong (2011) asked people to calculate mathematical problems (versus report their feelings about an issue) and has subsequently given participants an opportunity to deceive another participant in hope of winning more funds in an economic game. These studies found that the deliberative mindset elicited in the condition in which participants worked on the quantitative task increased the level of unethical behavior. The explanation for this effect is that the deliberative mindset promoted by the quantitative content allows people to override and suppress their emotional empathetic responses and instead follow their self-interest. This argument builds on the distinction between two psychological systems, one evolutionarily older and impulse-driven, and one evolutionarily recent and controlled (see, e.g., Evans, 2008, for a review). Research in moral psychology (Haidt, 2001; Haidt & Kesebir, 2010) and primatology (de Waal, 1997, 2006) suggests that people have innate moral intuitions that motivate concern for others and in that way facilitate the functioning of social systems. The research by Zhong (2011) shows that controlled and deliberative thinking can be used to override these moral impulses, facilitating unethical behavior (see also Cornelissen, Dewitte, & Warlop, 2011). Thus, the focus on quantitative and monetary aspects of phenomena, uniquely present in the finance industry, may in itself promote a deliberative mindset at the expense of intuitive and empathetic responses, and in that way promote more unethical behavior.

In addition to suppressing the emotional and empathetic impulses, the ubiquity of money may affect how people in the finance industry construe situations they encounter. The seemingly all-encompassing financialization of a whole array of aspects of contemporary life has been treated in detail in other chapters of this volume (chapters x and y for example). One set of admonitions in relation to the widespread monetization and quantification of modern life, and organizational life in particular, concerns the fact that quantification directs people’s focus towards technical and instrumental aspects of a given situation and away from its interpersonal aspects, making non-technical content lose importance as a basis for judgment (Porter, 1995). In this sense, money is relevant as a contextual cue that people in organizations rely on to interpret what kind of situation they are facing (Higgins, Rholes, & Jones, 1977). This is important for ethical decision making because if one does not assume ethical perspective when it is called for, or if one does so to a relatively lesser degree, one is less likely to be aware of the ethical relevance of the situation (Rest, 1986). This, in turn, means that ethically-relevant information will not be adequately
included in the subsequent decision making process (Gioia, 1992; Tenbrunsel & Messick, 1999; Tenbrunsel & Smith-Crowe, 2008).

For instance, Tenbrunsel and Messick (1999) show that the very presence of a sanctioning system (affecting the expectation of behavior requiring such a system) will make individuals more likely to construe situation as a competitive and business situation rather than consider its ethical aspects (see also Pillutla & Chen, 1999). Kay, Wheeler, Bargh, and Ross (2004) found that the mere placement of objects common to the domain of business (e.g., boardroom tables and briefcases) in a room where the experiment is conducted makes the construct of competition more salient and, in turn, leads to more selfish behavior in interpersonal interactions. In a similar manner, money, the defining element of the finance industry, due to its general association with amoral and technical domains (Fiske, 1992; Simmel, 1990 [1907]), may serve as a strong contextual cue making individuals less likely to assume an ethical perspective. Providing support for this reasoning, Kouchaki, Smith-Crowe, Brief, and Sousa (2013) found in a series of experiments that activating the concept of money makes people more likely to adopt a business decision frame, in turn leading to more unethical behavior.

Another way in which money and wealth that are uniquely represented in the finance industry might affect ethical decisions and behavior is through the more general role of money in the ability of individuals to satisfy their goals in life. The research by Vohs, Mead, and Goode (2006) advanced the hypothesis that money brings about a self-sufficient orientation, making people prefer to be free of dependency and dependents. This notion is broadly consistent with research on social class, which shows that, partly out of necessity, low-income people adopt a more interdependent self-construal and emphasize social relationships more than do those with more resources (Stephens, Markus, & Townsend, 2007). The reasoning behind these perspectives emphasizes the fact that money facilitates the attainment of goals in life, so people who possess it are less dependent on others. This, in turn, should make them less interested in other people and their wellbeing, including in situations when others are harmed by unethical conduct (cf. Petersen, 2012).

Research by Pitesa and Thau (2014) directly examined whether having (vs. lacking) material resources leads to higher (vs. lower) sense of personal vulnerability (i.e., the ability to cope with negative events in life) and, in turn, less harsh (harsher) judgments of others’ moral transgressions. In a large-scale field study, this research found that those with a low income make harsher moral judgments of a range of unethical behaviors. In addition, inflation (which diminishes the value of material resources people have at their disposal) also led to harsher moral judgments, and this effect was stronger among low-income people, whom inflation renders especially vulnerable in terms of their ability to cope with negative events in life. In a follow-up experiment, this research found that manipulating people’s sense of how much resources they have (using differential scale anchors in different experimental conditions) affects people’s self-reported vulnerability and judgments of moral transgressions. Specifically, those who were made to feel as if they have more (less) material resources at their disposal felt less (more) vulnerable, and, in turn, made less
harsh (harsher) moral judgments. Thus, the abundance and wealth that characterize the finance industry may make people working within this industry less averse to unethical behavior more generally, which may constitute another explanation for the greater levels of unethical behavior in the finance industry. Lower moral standards resulting from an abundance of resources might translate into less moral actions (Ajzen, 1991). More generally, leniency toward unethical behavior within the finance industry makes such behavior less likely to be punished (Cushman, 2008) and thus more likely to spread.

**Competitiveness in the finance industry**

The disproportionate representation of widely valued outcomes such as power and wealth described in the preceding section makes the finance industry an attractive domain of work. The greater attractiveness of rewards in this industry, however, implies greater competition (Matthews, 1994). Indeed, as mentioned previously, many people working in the finance industry feel pressured to engage in unethical conduct by the competitive work situation in this industry (Labaton Sucharow, 2012). In this section, I review research exploring the mechanisms by which the high levels of competitiveness present in the finance industry may cause increased unethical behavior.

*Psychological consequences of competitive task structure*

A greater competition implies a greater difficulty of attaining one’s goals. When people anticipate a greater difficulty in attaining their goals, they can be expected to be more likely to resort to unconventional means to attempt to reach their goals, including unethical behavior. Hegarty and Sims (1978) provided early experimental evidence that competition makes people more likely to resort to unethical behavior to attain valued goals in the business context. Participants in their experiment were asked whether they would opt for the unethical tactic of kickback bribes in order to keep a business contracts. In addition, the business context was described as more or less competitive. Consistent with the idea that competitive task structure promotes unethical behavior, this study found that participants opt for more unethical business practices when the context was described as more rather than less competitive.

In another study that demonstrates the potential negative implications of competitive task structures, Schweitzer, Ordonez, and Douma (2004) compared the level of unethical behavior (misreporting performance on a verbal task) among people trying to “do their best” versus those who were trying to reach a specific difficult goal. Specifically, in one condition, they were told “do your best to create as many words as you can;” in the other condition, they were instructed to try to create 9 words, a goal that was described as “difficult, but realistic.” After receiving the different instructions, participants were asked to work on a word task that involved creating words from collections of letters. After the allotted time, participants were given dictionaries and were asked to check their own work and report their performance. This provided participants with an opportunity to cheat by misreporting
their performance on the task. Unbeknownst to participants, experimenters were able to compare participants’ real performance and self-reported performance, thus measuring the degree of cheating. As predicted, participants who were instructed to “do their best” cheated less than those who were trying to reach a specific difficult goal. Taken together, these studies show that the high level of competitiveness in the finance industry might itself stimulate people to “cut corners” and opt for unethical means of reaching their goals.

The competition for the attractive rewards in the finance industry might also be relevant for the level of unethical behavior in this domain due to its effect on people’s regulatory focus. Psychological research shows that when people pursue goals, they focus more heavily either on the promotion of positive outcomes or on the prevention of negative outcomes (Higgins, Roney, Crowe, & Hymes, 1994). The high level of competition in the finance industry, as well as the related attractiveness of rewards, should lead to a greater focus on positive outcomes, and, thus, a greater promotion focus. Gino and Margolis (2011) argued that an increased promotion focus may lead to more unethical behavior. These authors manipulated participants’ regulatory focus in experiments and have found that inducing a prevention focus leads to more cheating, measured using a similar performance overstatement paradigm to the one described above (Schweitzer et al., 2004). Gino and Margolis (2011) found that the increase in unethical behavior as a result of induced promotion focus is mediated by increased risk-seeking behavior: Those who were focused on promotion of positive outcomes were more willing to engage in social risks in order to attain the desired outcomes.

One final way in which the competitive nature of work in the finance industry may directly stimulate unethical behavior is intergroup competition. Companies in the finance industry compete fiercely among themselves (Matthews, 1994). In many domains of finance, such as investment banking, companies’ success is determined by their relative performance in comparison with other companies in the industry (Stulz, 2007). Firms that produce higher returns for their clients rapidly attract other companies’ clients and thrive. Classical research in social psychology shows that such intense intergroup competition over valued resources promotes a competitive mindset in which people become much more willing to cross ethical boundaries to help their group win competitions and defeat other groups (Sherif, Harvey, White, Hood, & Sherif, 1961). In addition, the context of intergroup conflict may promote cohesion within groups in a way that may provide psychological safety for group members to engage in unethical behavior (Narayanan, Ronson, & Pillutla, 2006; Pearsall & Ellis, 2010). In fact, in the context of intergroup competition, members might even engage in unethical behavior that benefits their group motivated by the goal to gain social approval from others in the group (Pillutla & Thau, 2009; Thau, Derfler-Rozin, Pitesa, Mitchell, & Pillutla, 2014). Thus, the intergroup nature of competition in the finance industry might activate the propensity for ruthless competition tactics, including unethical tactics, and as such it might constitute another factor explaining the increased levels of unethical conduct in this domain.
Psychological consequences of increased cognitive demands

Another implication of the extreme competitiveness in the finance industry is the tremendous investment of time and energy needed for successful performance. Michel (2011) conducted a nine-year ethnographic study to investigate the demands of work in investment banks. This research found that work norms in this field include extreme investment of energy and time: “The bank erased distinctions between work and leisure by providing administrative support 24 hours a day, seven days a week, encouraging leisure at work, and providing free amenities, including childcare, valets, car service, and meals. Some of the banks’ embodied controls focused on managing employees’ energy and included providing free caffeine and meals during ‘energy slumps,’ hiring young people, focusing on energy as the main hiring criterion, and firing low performers because of their energy drain” (Michel, 2011, p. 336).

Although work demands at first glance seem unrelated to people’s propensity to engage in unethical behavior, recent research indicates that this may in fact be an important factor determining the likelihood of crossing ethical boundaries. Research in psychology demonstrated that exerting self-control in order to override automatic impulses consumes actual physical energy (Masicampo & Baumeister, 2008). The total amount of the energy required to exert self-control seems to be limited, so exerting self-control decreases the total level of available self-regulatory resources (Baumeister, Bratslavsky, Muraven, & Tice, 1998). Building on this finding, Mead, Baumeister, Gino, Schweitzer, and Ariely (2009) argued that a depletion of self-control would lead to more unethical behavior because people would become less able to override (control) their impulses to engage in self-serving behavior. To test this idea, the researchers differentially depleted participants’ self-control by providing them with a prior task that either requires or does not require self-control to perform. As predicted, participants who exerted more self-control on a prior task (and thus had less self-control available) were less able to restrain their selfish impulses: They cheated more and were more likely to make decisions that resulted in additional opportunity to benefit the self through unethical conduct.

In a follow-up research, Gino, Schweitzer, Mead, and Ariely (2011) further examined the relationship between the availability of self-regulatory resources and unethical behavior and have found that another mechanism by which a lack of self-regulatory resources promotes unethical behavior is through decreased moral awareness. Those who are depleted in terms of energy available for self-regulation fail to notice and attend to the moral content of situations they face. In addition, this research provided further evidence of the relationship between self-regulatory resources and unethical behavior by testing this idea through a different study design. Participants were first given an opportunity to cheat and were then given a Stroop (1935) task. The key element of the task consists of seeing color names printed in incongruent colors (e.g., “green” printed in red) and naming the color the word was printed in, while ignoring the meaning of the word. This requires people to override the default response, which is to attend to the meaning of the word, and as such can be used to measure the availability of self-regulatory resources (DeWall, Baumeister, &
Vohs, 2008). The research by Gino et al. (2011) found that those who refrained from cheating (compared to those who cheated) performed worse on the Stroop task following the opportunity to cheat, indicating that their self-regulatory resources were depleted by the act of refraining from cheating. Taken together, this research indicates that the tremendous drain of energy resources necessary for work in the finance industry might itself be a factor promoting unethical behavior because on average people working in this domain should have less self-regulatory resources available to control their selfish impulses (see also Thau & Mitchell, 2010, for other pathways through which a lack of self-regulatory resources might promote problematic work behaviors).

Barnes, Schaubroeck, Huth, and Ghumman (2011) extended this reasoning to the effect of sleep on unethical behavior. The authors reasoned that less sleep, and/or a lower quality of sleep results in overall lower levels of energy, thus reducing the level of self-regulatory resources available to stymie selfish impulses. The authors tested this idea in a series of studies. In one study, management undergraduate students’ sleep quantity was negatively associated with the tendency to misreport performance (for which they could win a cash prize). In another study, employees’ self-reported amount of sleep predicted their supervisor’s rating of the employee’s unethical conduct in the workplace, and this relationship was mediated by employee cognitive fatigue. Finally, the authors also conducted an experience sampling study, whereby working adults completed two surveys daily over the course of five days. The results showed that respondents’ daily changes in sleep quantity explained the variation in their propensity for unethical behavior, and this relationship was again mediated by their cognitive fatigue. Considering the extreme work hours (and the associated lack of sleep) in the finance industry noted by Michel (2011), it is likely that one element promoting the tendency to engage in unethical behavior is a low level of self-regulatory resources among employees in this industry.

A related line of research examined the effect of time pressure on the propensity to make ethical and unethical decisions. In an early study on the effect of time pressure on social conduct, Darley and Batson (1973) instructed students at Princeton Theological Seminary to go give a talk in another building. In one condition, participants were told they were late and should hurry. In the second condition, they were told they had just enough time. In the third condition, they were told they would arrive early. On their way to the other building, the students encountered a stranger slumped in a doorway. In reality, this was a confederate and the purpose of the experiment was to examine how many participants would stop and offer help. The study found that 63% of participants who had abundant time stopped to help, 45% of participants who had just enough time, and only 10% of those running late. This result shows that time pressure as a situational influence can have a significant effect on the propensity for ethical behavior, even among seminary students, who are presumably more disposed to engage in such positive interpersonal actions as helping than is the average person.

While the results of the study by Darley and Batson (1973) can be explained by the fact that participants faced competing goals, recent research extended the logic
of self control as a limited resource (described above) to argue that time constraints may reduce the ability to override selfish impulses, thus actually causing more unethical behavior. Because overriding selfish impulses requires an active application of self-regulatory resources, people who are in a hurry might not have the time to do so fully. Shalvi, Eldar, and Bereby-Meyer (2012) provided an experimental test of this idea. Participants in their experiments were asked to throw a die and report the outcome, with higher outcomes leading to the possibility of higher additional payment. They were instructed to do so either under time pressure, within a pre-defined time limit, or were told to take as much time as they needed. The results indicated that participants facing time pressure over-reported their outcomes significantly more than did participant not facing any time constraints. The authors interpret this finding as supporting the idea that a lack of time reduced participants’ ability to override their selfish impulses and restrain the propensity for unethical conduct. Taken together, this line of research suggests another possible element contributing to the high level of unethical behavior in the finance industry: Due to exceptional work demands and time pressure in the finance industry (Michel, 2011), people working in this domain might have less cognitive resources needed to inhibit impulses motivating unethical conduct.

Saliency of interpersonal impact in the finance industry

Another characteristic of the finance industry is that it is defined by a relatively technical and impersonal type of work. As I elaborate below, people working in this domain often make decisions that do not seem to have implications for specific salient individuals and make their decisions in a relatively anonymous manner that does not create a sense of the ownership of the act. I refer to these situational features as the saliency of interpersonal impact, because they jointly define agents’ appreciation of the fact that they are committing acts that negatively affect others and are thus unethical. Research suggests that these situational features can affect the propensity for unethical behavior and may thus contribute to explaining unethical behavior in the finance industry. Below, I review how the nature of work in the finance industry affects the saliency of the victims of unethical behavior and the sense of personal agency, and how these two factors impact the tendency to engage in unethical conduct.

Victim saliency

For many decisions made in the finance industry, those who could ultimately be affected by the decision are not immediately salient. For example, when employees were making decisions on whether or not to issue subprime loans, ultimate victims of such behavior might not have been salient, as the immediate results of the act were benefits for all involved (those receiving as well as those issuing the loan). Similarly, when making decisions on whether or not to invest funds in risky assets, those that could be harmed by such behavior are not salient—in fact, the investor is very likely to never have met those on whose behalf the investment is made. Thus, one important feature of unethical behavior in the finance industry is that it can feel victimless, i.e.,
the ultimate potential victim of such behavior is often not salient in the moment in which the decision is made.

Research shows that the saliency of those affected by one’s decisions at work may be an important determinant of the propensity of engaging in unethical behavior. By saliency, I mean the vividness of the fact that the unethical behavior has negative consequences for another person (cf. Jones, 1991). The obedience studies conducted by Milgram (1965) offer an early empirical demonstration of the importance of this factor in explaining unethical behavior. In these experiments, participants were led to believe they participated in a study on the effects of punishment on learning. They were assigned, seemingly randomly, to the role of teacher. Another participant, in reality a confederate, was assigned to the role of learner. The learner was instructed to remember a series of word pairs, and teachers were asked to administer punishment (electroshocks) to the learner in case a word pair was remembered incorrectly. The real phenomenon of interest was participants’ compliance with the instruction to administer the ostensibly painful electroshocks to the learner; Milgram sought to understand when and why people could be made to engage in such unethical acts.

One factor varied in these studies was how salient the victim was. In one condition, the subject could neither see nor hear the victim. In another condition, the victim could be heard but not seen. In yet another condition, the victim was placed in the same room with the participant and could thus be both seen and heard. In the final condition varying victim saliency, participants were asked to physically force the learner’s hand on a plate in order to administer shocks. As post-study questionnaires show, there were no differences in the attributed level of pain across conditions. Yet, there were significant differences in the propensity to administer electric shocks to the learner as a function of victim saliency, such that the level of obedience fell sharply the more salient the victim was made. Milgram (1965) proposed an interpretation of why low victim saliency leads to greater levels of harm inflicted on the victim: “the victim's suffering possesses an abstract, remote quality for the subject. He is aware, but only in a conceptual sense, that his actions cause pain to another person; the fact is apprehended, but not felt” (p. 63). Thus, it seems that even when it is clear that the unethical action has a negative effect on others, the lower saliency of the victim makes people experience and process this fact less intensely and makes them more likely to engage in unethical behavior.

A similar idea is present in research on the role of victim identifiability in helping. Schelling (1968) proposed that people evaluate the value of life differently when it is described using individuating information versus statistical information. Small and Loewenstein (2003) provided an empirical test of this notion and found that people are more willing to donate to identified victims than to statistical victims. This stream of research suggests that low victim identifiability hinders the ability to adopt the perspective of the victim, and thus empathize with the victim. For this reason, even when people know the consequences of their acts are identical, they intuitively feel more strongly and care about salient others. This, in turn, motivates greater level of other-regarding behavior for salient, compared to non-salient victims.
This reasoning has also been applied in research on ethical decision making. Watley and May (2004) used a scenario study to examine the effect of the amount of personal information about the potential victim of an unethical behavior on participants’ intentions to engage in this behavior. The authors found that including personal information reduced the intention to engage in unethical behavior and this effect was explained as arising due to the greater “moral intensity” of the situation when more personal information about the victim was present. Moral intensity here refers to the decision maker’s sense of moral relevance and gravity of the situation (Jones, 1991) and expresses the idea that in conditions in which those affected by unethical behavior are not salient, the agent of the unethical act is less likely to interpret and experience such behavior as problematic. Studies by Gino et al. (2009) similarly found in that making victims identifiable makes judgments of unethical actions against them harsher (indicating greater caring for the victims).

The effect of low saliency of victims on the tendency to engage in unethical behavior may be particularly strong in combination with self-regulatory depletion, another problematic aspect in the finance industry noted previously. In a series of experiments, Pitesa, Thau, and Pillutla (2013) tested the idea that low awareness of the fact that one’s unethical behavior affects others makes it more likely for the impulsive response to engage in self-serving (rather than other-regarding) behavior, thus strengthening the negative effect of self-regulatory depletion on propensity for unethical conduct. This hypothesis was supported: Self-regulatory depletion led to significantly more unethical behavior among participants who were not reminded that their actions would affect others than among participants who were. Thus, the low saliency of those affected by unethical behavior in the finance industry may be particularly problematic in terms of its effects on unethical behavior in combination with the demanding nature of work in this domain.

**Personal agency**

Another characteristic of work in the finance industry that may be relevant for the prevalence of unethical behavior is the sense of personal agency in unethical actions people experience in this domain of work. Unethical behavior in the finance industry is often committed on a relatively large scale (e.g., the behavior that led to the subprime mortgage crisis) rather than as isolated incidents. This is relevant because acting as part of a broader social group can diminish the sense of personal agency in one’s actions (Zimbardo, 1969). In addition, those in the finance industry who commit unethical acts often work within larger organizations and institutional systems. This implies that many are actually not directly responsible for their own decisions but are conforming to the instructions of others (e.g., their superiors). Research in social psychology shows that in such situations people’s sense of their personal agency reduces dramatically (Bandura, Underwood, & Fromson, 1975; Milgram, 1965). Below I review research on unethical behavior that demonstrates that a lower sense of personal agency licenses people to engage in unethical behavior, thus demonstrating the importance of this feature of the work in the finance industry in explaining unethical behavior in this domain.
A study by Diener, Fraser, Beaman, and Kelem (1976) provides an early demonstration of the effect of a reduced sense of personal agency on unethical behavior. These authors conducted a naturalistic study on Halloween to examine conditions affecting children’s propensity to steal candy and money. The behavior of over 1,300 trick-or-treating children was unobtrusively observed. Raters recorded whether children were alone or in a group. In addition, personal responsibility was directly manipulated by either asking one or more children for their names (thus increasing the sense of personal agency), or leaving them anonymous. Children were instructed to take one candy each. The experimenter recorded how many candy children actually took and also whether they took some money, which they were not supposed to do. The study found that both acting as part of a group and being anonymous led to more unethical behavior.

Zhong, Bohns, and Gino (2010) tested the idea that an illusory sense of anonymity caused by being in the dark promotes unethical behavior. In one study, participants were asked to solve a mathematical problem either in a well lit or a somewhat dim room and reward themselves financially based on their performance. This simple manipulation led to higher levels of unethical behavior (over-reporting their performance and thus taking more money than earned) in the dim room. In another study, the authors elicited the sense of darkness by merely asking participants to wear sunglasses while working on a task. The task consisted of distributing funds between themselves and another participant. Paralleling the results of the first study, wearing sunglasses led to more self-interested behavior (keeping more money for oneself), and this effect was mediated by participants’ self-reported perceived anonymity. Taken together, the research on anonymity of the agent shows that diminishing the sense of agency or responsibility for the unethical act disinhibits people to behave more unethically.

Research also examined other factors that affect the sense of personal agency for unethical conduct. Shu, Mazar, Gino, Ariely, and Bazerman (2012) argued that signing a document that affords the opportunity for unethical behavior (e.g., a tax report that can be filled out more or less honestly) at the beginning evokes a greater sense of personal agency for potential unethical conduct than does signing at the end. The reasoning for this prediction is that by signing at the beginning, the personal ownership of the actions that follow becomes temporarily salient. To the degree that people want to maintain a positive self-image of a moral person, this should decrease the likelihood of unethical behavior occurring. In contrast, signing at the end takes place after the unethical behavior may have already occurred, so it is less likely that it would affect the rate of unethical actions (e.g., by prompting people to revise their entries on a tax form). The researchers gave participants in an experiment an opportunity to misrepresent their performance for material gain and asked them to sign their name either before or after the opportunity for unethical behavior. As predicted, there was more unethical behavior in the condition in which participants signed at the end. In another study, the researchers partnered with an automobile insurance company and manipulated the form on which customers reported the odometer mileage of the cars insured by the company to request their signature either
at the beginning or at the end. As predicted, signing at the end was associated with more self-interested (mis)reporting of car mileage.

Bryan, Adams, and Monin (2012) conducted a series of experiments in which participants were given an opportunity to earn money unethically. They manipulated participants’ sense of personal agency for unethical behavior by asking them either not to “cheat” or not to “be a cheater.” The latter wording implicates the self to a greater degree, creating a greater sense of personal agency in the unethical behavior. As predicted, the rates of unethical behavior were greater when participants were asked not to cheat than when they were asked not to be a cheater. These findings also indicate that the sense of personal agency can have a strong influence on the propensity for unethical behavior. As argued earlier, sense of personal agency in the finance industry can be relatively low, so this characteristic of work in finance may be an important additional explanation for the exceptional levels of unethical behavior in this domain.

Conclusions and Recommendations

This chapter focused on three characteristics of the finance industry that might explain what most commentators have seen as the rampant unethical behavior in this domain of work however one may define “unethical”. I reviewed research explaining how the disproportionate representation of power and wealth affect how people working in finance approach social relationships, with important consequences for their propensity to behave unethically. Those in power are often more self-centered and more likely to disregard others’ interests. However, power can also have a liberating effect, and in combination with a strong moral character, does not have to be a corrupting force. Money, a hallmark of the finance industry, can promote unethical behavior by putting people in a more deliberative, rather than intuitive and empathetic, state of mind, and by shifting their focus away from social and ethical aspects of the situation and prompting an increased objectification of social relationships. Money may also make people feel self-sufficient and protected. This can reduce the general concern with unethical behavior among those in the finance industry.

I also reviewed research showing that the competitive nature of work in the finance industry may be a driver of unethical behavior. Competition over rewards stimulates people to engage in unethical behavior to attain their goals, and this might be particularly relevant in the context of intergroup competition. In addition, the immense cognitive demands and time pressure can deplete people of self-regulatory resources needed to inhibit selfish impulses. Various elements of demanding working conditions in finance, from lack of sleep to intense schedules, may render those in this line of work more likely to succumb to selfish and unethical urges.

Finally, I reviewed the literatures explaining how low victim saliency and personal agency in the finance industry may prompt and license unethical conduct. Because the ultimate victims of unethical behavior in the finance industry are often not salient, people committing these acts might not experience their actions sufficiently negatively to avoid behaving unethically. In addition, unethical actions in
the finance industry are often committed in such a way that does not create a strong sense of personal agency, for instance, because the unethical behavior occurs on a large scale or as part of broader organizational and institutional structures.

While the primary goal of this analysis was to explain the increased level of unethical behavior in the finance industry through an analysis of its characteristic features, the conclusions drawn from this review may inform action aimed at regulating and managing unethical behavior in this domain. To quell the negative effects of power, decision makers may introduce accountability arrangements that divert decision makers’ focus to procedural (rather than outcome-oriented) aspects of their decisions, a method that has been shown to reduce self-serving tendencies among the powerful (Pitesa & Thau, 2013b; Rus, van Knippenberg, & Wisse, 2012). Alleviating the potential problematic consequences of money might be more difficult, but one possible approach might be through corporate programs aimed at increasing the tendency to take others’ perspective and empathize with others. In addition, in view of the finding that power amplifies the expression of personal dispositions (DeCelles et al., 2012; Pitesa & Thau, 2013a), organizations should implement a stronger employee-selection policies based on evidence of (im)moral character of its employees. Some indication of person’s moral character may be gained through cleverly designed indirect assessment tools that minimize socially desirable responding, such as those based on implicit measures (see, e.g., Aquino & Reed, 2002, Study 2). More importantly, organizations should be alert and more strongly responsive to explicit demonstrations of employees’ lack of moral character.

The negative effects of competitive nature of work might be the most difficult to combat. At the very least, organizations might rethink the policy of extremely demanding working conditions and time pressure. There is perhaps more promise in reducing the negative aspects of low victim saliency and personal agency. Organizations could implement corporate programs, such as those based on corporate communication or training sessions that would direct employees’ attention to the potential negative impact their actions could have on others. In addition, organizations could enhance the sense of ownership of employees’ actions using various techniques that increase the sense of personal agency in the decisions people make at work, such as the previously described mechanism for implicating the self developed by Bryan et al. (2012).

In conclusion, the finance industry is specific in comparison with other domains of work in several important ways that might explain the widespread unethical behavior in this industry. Considering the importance of finance for all aspect of business and life, understanding why unethical behavior occurs at an unacceptably high rate in this domain of work is of great social significance. This chapter has provided an overview of psychological processes underpinning unethical behavior in the finance industry and in so doing opens up avenues for further study of unethical behavior in this domain, as well as for informed action aimed at curbing such problematic conduct.

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