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Teaching Ethics, Heuristics, and Biases

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Abstract. Although economists often model decision makers as rational actors, the heuristics and biases literature that springs from the work of Nobel Prize winner Daniel Kahneman and his late colleague Amos Tversky demonstrates that people make decisions that depart from the optimal model in systematic ways. These cognitive and behavioral limitations not only cause inefficient decision making, but also lead people to make decisions that are unethical. This article seeks to introduce a selected portion of the heuristics and biases and related psychological literature, to highlight its implications for ethical decision making, and to serve as the basis for a lecture that could inform students regarding these matters. If business actors are on guard against errors in their own decision making processes, perhaps they can avoid some of the ethical pitfalls that recently put Enron and so many other companies in the news.

Keywords: attribution theory, behavioral psychology, biases, cognitive dissonance, decision theory, escallation of committment, ethics, framing effects, heuristics, overconfidence, rationality, self-serving bias, sunk costs.

1. Introduction

Purely by happenstance I recently found myself at two separate functions sitting next to individuals who had been convicted of white collar crimes in high-profile scandals of the early 1990s. After each event, I described both men as "the nicest guy you'd ever want to meet." And they certainly seemed to be.

This led me to wonder why nice guys (and gals, like my students) break the law and violate ethical conventions. Certainly economists have modeled criminal activity as rational decision making involving the weighing of potential benefits of the crime against the potential punishments multiplied by the chance of detection (Posner, 1977). However, most people who break the law and breach generally accepted ethical standards do not engage in such rational calculations. Jenkins (2000) has argued that most of the principals in the latest round of corporate scandals (Enron, WorldCom, Global Crossing, Adelphia, Tyco, etc.) were plagued more by bad decision making than by an inability to recognize or analyze ethical dilemmas. Indeed, as Costa (1998) has noted, "[t]here are truly sinister businesspeople with sinister intentions, but, for the most part, ethical and legal lapses are the stuff of average people who know better."

When I teach business ethics to business students in my introductory business law courses, accounting ethics to accounting students, or legal ethics to law school students in my securities regulation course, I certainly introduce them to the specifics of their particular professional code of conduct. I also attempt to sensitize students to various forms of ethical dilemmas so that they will recognize moral quicksand when they approach it, and endeavor to give the students the philosophical tools with which to analyze those dilemmas when they arise.

What I have not done a thorough job of, and I suspect that I am not alone in this, is to educate the students regarding their own cognitive and behavioral susceptibilities that might lead to (often unwitting) unethical decision making. Preaching to the students is one approach I have tried. Cheerleading ("Go! Fight! Do the Right Thing!") is another avenue. However, I suspect that inoculating students regarding weaknesses in their own decision making processes is a superior approach. Although I have no empirical data to support this intuition, I assert here that an ethics student can profitably explore the heuristics and biases literature pioneered by recent Nobel Prize winner Daniel Kahneman and his late colleague Amos Tversky. This substantial literature contains overwhelming evidence that people do not always make decisions in a rationally optimal manner. Indeed, various heuristics and biases lead most people to systematically diverge from optimal decision making, as has been widely documented (*e.g.,* Gilovich et al., 2002, Kahneman & Tversky, 2000, Kahneman et al., 1982).

What is less often studied is the fact that many of these heuristics, biases, and related psychological tendencies can render even well-intentioned people susceptible to committing unethical and even illegal acts. With a few exceptions (Messick and Tenbrunsel, 1996; Messick and Bazerman, 1996, Etzioni, 1988), this body of thought has received insufficient attention in academic ethics literature. More to the point, as far as I am aware it has been generally ignored in the business school and law school classrooms when the subject of professional ethics is being discussed.

This paper presents information that can readily be used as the basis for a lecture introducing students to the heuristics and biases in their own decision making that could lead to unethical behavior.

2. Heuristics and Biases: Ethical Applications

In many settings people are subject to various heuristics and biases that systematically prevent their decision making from being objectively optimal. As Hastie and Dawes (2001) note, "[n]ot only do the choices of individuals and