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**Preventing Corruption by Promoting Trust
– Insights from Behavioral Science**

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Preventing Corruption by Promoting Trust – Insights from Behavioral Science

by JOHANN GRAF LAMBSDORFF¹

ABSTRACT

Governments, companies and organizations across the world have implemented strategies for countering corruption. A growing body of so-called best practice has emerged in the last 20 years. But some approaches have been criticized for being costly, ineffective or even counterproductive. This study illustrates this, using six examples, relating to the four-eyes principle, procurement, development aid, compliance statements, leniency and the tone at the top. Increasingly, behavioral science has provided insights on how to improve policies. These insights, along with experimental evidence, are applied to the six examples to provide direction to behaviorally better informed policies.

BEHAVIORAL SCIENCE AND CORRUPTION

Behavioral science, embracing disciplines at the intersection of psychology, economics and other social sciences, has provided impressive evidence on people's behavior that departs from the rational, self-seeking paradigm. This departure has often focused on imperfections with regard to people's capacity to optimize, bounded self-control, and nonstandard preferences. Given these cognitive biases, policies have been sought that nudge people into making decisions that are better in line with their preferences. These behaviorally informed policies exploit heuristics, status quo biases or related cognitive limitations. Applications of these behavioral insights have focused on enhancing the donation of organs, encouraging re-employment, advancing healthier food, overcoming procrastination with regard to retirement savings, conservation of energy, charitable giving, tax compliance, fine collection or increasing voter turnout (Bhargava and Loewenstein 2015; Madrian 2014; Lunn 2014; Ariely 2012; Thaler and Sunstein 2008).

In response to these findings, on Sep. 15, 2015 the President of the United States Barack Obama directed all executive departments and agencies to design its policies and programs by reflecting on insights from behavioral science "such as behavioral economics and psychology about how people make decisions and act on them." His move follows earlier initiatives in other countries. In 2010, the United Kingdom's government established the Behavioural Insights Team, which operates as an internal public sector consultancy and is widely known

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as the Nudge Unit. Similarly, the OECD has made a first step to incorporate behavioral science into their work (Lunn, 2014).

Applying behavioral science in the fight against corruption has gained increasing interest. Experimental evidence, both from the laboratory and the field, can be screened for regularities and inferences can be drawn for effective approaches to integrity and anticorruption (Serra and Wantchekon 2012). These pieces of evidence point towards a more comprehensive picture of humans who face corrupt incentives (Lambsdorff 2012). In this spirit, the World Bank devoted its 2015 World Development Report to behavioral research and its application to development and methods for fighting corruption. It seeks to “enhance the understanding of how collective behaviors — such as widespread trust or widespread corruption — develop and become entrenched in a society” (World Bank 2015: 2). It suggests that success in fighting corruption requires tackling public expectations, which might be manipulated towards a low-corruption equilibrium by frying the big fish, marketing campaigns or nonmaterial incentives (World Bank 2015: 61).

Given this recent interest, this study identifies areas where the prevalent approach to anticorruption has been criticized for being particularly costly and counterproductive. For example, criticism has been raised regarding the prevalent focus on rational and self-seeking behavior as well as the associated approach to anticorruption by applying a principle-agent perspective (Persson et al. 2012). Contrary to this, one pillar of behavioral science is based on the observation that people have nonstandard preferences and that their level of rationality is limited. For understanding anticorruption it is particularly important to recognize that people are trustworthy and willing to trust others (Berg et al. 1995, Camerer 2003), seek to take pride in their work, are intrinsically motivated and engage in charitable giving (Titmus 1971; Deci et al. 1999; Thomas 2009; Bowles 2008), and that they are responsive to encouragement, praise, expressions of gratitude and criticism (Masclot et al. 2003; Bénabou and Tirole 2003; Grant and Gino 2010). Based on these behavioral regularities, this study makes suggestions for improved policies and interventions.

The conventional approach to behaviorally informed policies has included nudges that preserve actors’ freedom of choice. These policies depart from conventional command and control mechanisms. For example, choices can be presented such that the default is in line with societal preferences. This has been criticized for restricting policies to a rather narrow range of policies. Bhargava and Loewenstein (2015) demand a broader scope. Indeed, when it comes to fighting corruption, the focus cannot be on getting rid of control mechanisms and on a preservation of the freedom of choice. Free choices among officials and employees can be useful for advancing prevention, but there should be no doubt that repression and punishment will have to contribute to anticorruption.

PREVENTION AND REPRESSION

There is widespread consensus on the disastrous consequences of corruption, evidenced in many cross country studies (Lambsdorff 2007). This has called for action. For more than 20 years, anticorruption has been on the agenda of governments, companies and international organizations. A particular focus has been laid on repression. In 1997, the Organization for Economic Cooperation and Development (OECD) adopted a convention, requiring its members to prohibit bribery in international business transactions. In 2003, the United

Nations (UN) adopted a convention against corruption, obligating its member states to implement measures to criminalize corruption, including domestic and foreign bribery, embezzlement, trading in influence and money laundering. In the United States, the Securities and Exchange Commission and the Justice Department have taken an increasingly rigorous position against corporate bribe-giving, embracing domestic and extraterritorial offenses, and have imposed fines totaling billions of dollars every year. Prosecutors across the world are now investigating corporate misconduct and are imposing severe punishments. Not only individuals are being sanctioned, corporations are also being threatened with major fines.

Repressive methods rely on a substantial risk of detection and punishment or the threat of being publicly ostracized. Investigators and prosecutors who work in this area are trained to approach testimonies and traces with care and skepticism. They know that criminals combine self-interest with guile. Criminals lie and cheat, they deceive, distort information and trick investigators in order to escape prosecution and punishment. There is thus good reason to distrust any information they provide and consider any clues to be potentially manipulated. The standard avenue for repression is to look only for objective evidence that could not have been manipulated. Simply put, it is based on a principle of distrust.

Preventive methods, such as rewards for ethical behavior and the associated psychological encouragement, are equally important for fighting corruption. Preventive reforms seek to advance positive values and norms, inducing people to behave honestly and contribute to corporate and social values (Heineman and Heimann 2006). But the current approach to preventing corruption is partly ill-guided. It is often organized by applying a principal-agent approach (Persson et al. 2012; Mungiu-Pippidi 2013). But this approach does not distinguish between a criminal who is motivated by self-enrichment and an official who is entrusted with an official duty. Both are regarded to rationally maximize their self-interest. This suggests that officials deserve the same level of distrust that is cultivated for repression. This is where the current approach to preventing corruption runs counter to insights from behavioral science.

TRUSTING OFFICIALS AND EMPLOYEES

Trust is an important precondition for economic exchange. Companies have faith that their employees will contribute to the corporate goals. Patients trust their doctors to care for their health. Political parties entrust their members with the authority to advance their program. Government departments are built on the confidence that officials respect public interest. This trust is built on the belief that people do not only care about short-term benefits. They also have a sense of duty and link their job to an intrinsic motivation. There has been extensive cross-country research on this type of trust, revealing that it advances civic cooperation, ameliorates conflict and supports economic growth (Knack and Keefer 1997; Zak and Knack 2001).

Economists have increasingly investigated trust in the laboratory and have observed astonishingly high levels of trust. In a widely replicated game, called the trust-game, two participants anonymously interact via their computer screens (Berg et al. 1995; Camerer 2003: 83-100). Both are initially endowed with 10 US\$. One of them, called the trustor, can send some or none of the endowment to the other. To each dollar sent, the experimenter adds another two dollars. This reflects the gains from investing into a trustful relationship, i.e. the idea that society benefits from trust and cooperation. The recipient of the money, called the

trustee, can then send the trustor any amount or nothing back. If both players trust each other, the trustor would send the entire 10 US\$. The experimenter would add another 20 US\$ and the trustee would transfer 15 US\$, for example, back to the trustor, sharing the gains from cooperation. But, in case of selfishness, no money would be sent. If the trustee maximizes only her own payoff, she would not send back any positive amount. Recognizing this lack of trustworthiness, the trustor will not send any money in the first place. The mutual gains from cooperation are then not achieved. But subjects do cooperate in the laboratory; on average, trustors send about 5 US\$ and are reciprocated by almost the same amount. Trust can be observed in the laboratory and it enables beneficial cooperation.

Equally important, much empirical evidence has been gathered on intrinsic motivation. People care about more than just money and status. They find a job satisfying if they can align their personal goals with their duties (Thomas 2009). Teachers are then happy about their pupils' educational achievements, doctors' self-esteem increases when they successfully heal a patient, and procurement officials take pride in high quality contracts. Leaders can trust that their officials' and employees' intrinsic motivation might substantially contribute to a decent performance.

CROWDING OUT THE TRUSTWORTHY

As shown by experimental evidence, many people can be trusted and doing so can enhance productivity. But the potentially corrupt should not be trusted. How should policies balance the trustful attitude towards the many trustworthy with the repression and distrust that is needed for disciplining the potentially corrupt? Ideally, one may invent preventive methods that deter the potentially corrupt while leaving the trustworthy unaffected. Unfortunately, this has not been achieved with the current preventive methods.

Prevention often entails establishing compliance systems. These embrace controls such as evaluations by superiors, peer reviews, internal and external audits, ethics trainings, corporate self-certification and reporting. These systems become increasingly costly and their benefits are likely to be affected by decreasing returns. Good preventive methods should help a company to avoid fines, prevent the loss of reputation and support a sustainable approach for defending corporate values. But this is not how managers currently perceive preventive methods. In the 13th Global Fraud Survey of 2014, Ernst and Young identified an increasing compliance fatigue among its respondents (Ernst and Young 2014). Already in earlier years, the U.S. senior executives that serve as respondents to this survey considered allegations of bribery or corrupt business practices to be predominantly unpleasant because these allegations increase compliance costs (Ernst and Young 2008). This suggests that the long-term benefits of compliance do not match their costs.

The long-term benefits fall short of the costs because the latter go beyond measurable payoffs to auditors, accountants and the like. The literature in behavioral economics has found evidence on hidden costs of control (Schulze and Frank 2003; Irlenbusch and Ruchala 2008; Gneezy and Rustichini 2000a and 2000b; Falk and Kosfeld 2006). These refer to the costs that arise due to the adverse impact on officials' and employees' intrinsic motivation. The intrinsic motivation is crowded out by an extrinsic substitute. The self-esteem of doing the right thing is not achieved if subjects are forced and controlled to behave accordingly. Without intrinsic motivation, duties are then fulfilled according to the extrinsic incentives, such as

performance-related advancement and bonuses, or risks of dismissal. These extrinsic incentives are costly to administer and may only imperfectly substitute a lack of intrinsic motivation.

A balance must be found between trusting the many intrinsically honest people and distrusting some corrupt. I will use six examples to explain how this balance has shifted excessively towards distrust and what to do about it.

EXAMPLE 1: THE FOUR-EYES PRINCIPLE

One prerequisite for corruption is discretionary power (Klitgaard 1988: 87-89). Officials or employees are offered bribes only if they can give something in return. This return is a decision in favor of the briber. Discretion is the leeway in carrying out an entrusted task and in deciding for or against a client. Many reform ideas thus focus on limiting discretion. One such measure is the four-eyes principle. A second employee must verify and sign off the decision of his or her colleague before it is implemented. Subjecting individual decisions to this type of peer review is a standard organizational method, aimed at avoiding individual mistakes. Having a second, independent person supervise a decision is seen as an insurance that a control mechanism is in place.

This method has many useful applications. Nuclear weapons may be safeguarded against misuse by requiring at least two keys which are held by two independent persons. Bank transfers of large sums of money may require a second signature. Unlocking a vault may require two individuals with knowledge of different parts of the digital combination. These rules make it harder for an individual acting alone to commit an error. The associated costs appear to be justified whenever an accidental error may induce a severe disadvantage to a corporation or a public entity. It has often been suggested that the four-eyes principle also qualifies for limiting corruption. Reports on anticorruption in the public sector often make reference to the four-eyes principle as a method for containing corruption. Successfully bribing two, it is widely believed, is more difficult and less likely than bribing just one decision maker (Six et al. 2012).

But the four-eyes principle does not help in reducing corruption. This is, on the one hand, due to the increased level of control. Applying the four-eyes principle in anticorruption is motivated by distrust and easily reduces intrinsic motivation. But the criticism is even more profound. As widely evidenced in behavioral science, groups of people are often more selfish than individuals (Charness and Sutter 2012). The four-eyes principle brings together two people who form a group, develop sympathy for and solidarity with each other. Due to solidarity, the one official turns a blind eye to an infraction by the other and consequently becomes entrapped in a corrupt network. The four-eyes principle also diffuses responsibility by providing employees and officials with excuses and justification, as it might be considered justifiable to take something as long the second employee does not intervene. While the four-eyes principle thus appears most intuitive to the layman, it has been critically challenged by an increasing amount of laboratory experiments. The common finding has been that the four-eyes principle is often ineffective and quite often even increases corruption (Schikora 2010; Li et al. 2015). Distrusting employees and inventing methods for reducing their discretionary power can thus easily backfire.

EXAMPLE 2: PROCURING COOKIES

The United Nations Convention against Corruption (UNCAC), one of the hallmarks in the anticorruption movement, not only provides recommendations for repression, but also contains many recommendations for prevention. In article 9, it requests “the use of objective and predetermined criteria for public procurement decisions, in order to facilitate the subsequent verification of the correct application of the rules or procedures”. Simplifying verification is seen to hinder bribe-taking. Procurement officials might then find it harder to manipulate the process. They will lack the discretionary power to award a contract to a favored company and will not be able to take a bribe. Whenever they do so, their decision would run counter to established criteria so that the probability of detection would be particularly high.

But Kelman (1993; 2003) and Anechiarico and Jacobs (1996) have long ago pointed out how this approach produces unwanted outcomes. They argue that it hinders officials in acquiring best-value products and services for the government. For example, procurement officials observe the performance of contractors over time. They gather experience with respect to the quality procured by contractors. But this experience is not objective. There is no proof available and it may not even be verifiable by an outside observer. For this reason, procurement guidelines implemented in the spirit of the UNCAC often discourage the use of this type of experience. Procurement systems then fail to exploit experience that would be vital in preventing corruption. Contractors are only sanctioned when proof of bad quality is supplied, but not when an experienced judgment would consider them to be unreliable or unethically motivated.

A related problem arises when contracts should be awarded to the lowest-price bidder (Wells 2014). Procurement officials’ task is then clearly defined: Determine the bidder who fulfils the predetermined and objective criteria and select the one with the lowest price. This leaves little discretion to the decision maker. But recent experiments show that this comes along with economic disadvantages: Lowest-price auctions are particularly detrimental to beneficial cooperation, resulting in bidders procuring lower quality. Fugger et al. (2015) provide experimental evidence on this effect and argue that it arises due to reduced discretionary power. With a lowest-price auction, officials cannot exploit their discretionary power and reciprocate high quality with future contracts. They are thus hindered to utilize their experience for the public benefit.

Another problem with lowest-price auctions is that all relevant quality criteria have to be determined in advance (Kelman (2003)). These criteria must include all technical details, material to be used and processed, safety requirements that have to be fulfilled, environmental issues and tax and labor regulations that must be obeyed by a bidder. Given the complexity of this task, more often than not some specifications are incomplete or imprecise with respect to some detail. This induces bidders to look out for such incompleteness. If they are successful, they obtain an edge compared to competitors. They might, for example, find a method for renegotiating a contract in their favor, supplying inferior quality or charging for extra work. But competitors who did not win the contract will complain about the loophole. In order to maintain a level playing field and preserve competition, the procurement officials must avoid the loophole and add more detailed specifications in subsequent tenders. Over time this process increases the burden of specifications. As a result, tender documents, even for small

contracts, are often extremely detailed and the documents requested from bidders are easily more than 100 pages long. The detail and complexity act as a deterrent to bidders, generate inefficiencies and suffocate competition (Kelman 2003).

Bandiera et al. (2009) report findings from a field experiment in Italy where procurement suffered most from inefficiency and much less from collusion and bribery. They argue that this is related to the increasing complexity of the procurement process and conclude (2009: 1279): “Fighting this kind of [inefficiency] requires giving public officials more discretion, not less”.

An illustrative and widely cited example in this respect is the tender document for oatmeal cookies and brownies by the US Department of Defense. It stretches across 26 pages of detailed description, often referring to other applicable documents that contain further details. To cite an example related to walnuts: “A minimum of 90 percent, by weight, of the pieces shall pass through a 4/16-inch diameter round hole screen and not more than 1 percent, by weight, shall pass through a 2/16-inch diameter round hole screen.” It requires little imagination that suppliers are easily frustrated, that bidder’s costs are inflated and that the quality of the final product is not enhanced by this level of detail. Wells (2014: 9) concludes: “Procurement officials therefore need to be given more discretion to choose the most appropriate approach and to justify their decisions, rather than remaining saddled with an oversimplified and bureaucratic system.” Behavioral science would be supportive of such a request. Procurement officials are likely to be intrinsically motivated and take pride in procuring good quality and therefore deserve some level of trust. One might easily imagine that they can find a decent method for determining the quality of a cookie.

EXAMPLE 3: DEVELOPMENT AID

Development aid tends to flow to poor countries that, on average, are affected by higher levels of corruption. This has led to increased vigilance among donors, because corruption implies that scarce resources are taken from the poor. Requests were thus made that discretion in development aid should be reduced to a minimum. Transparency International (2014: 144), for example, demands: “Don’t give full discretion to local leaders“. Who else would deserve discretion is not made clear in this report.

Project coordination tends to involve a substantial degree of decisions that must be made quickly, for example in the case of emergency help. This requires identifying development workers who can be entrusted with responsibility and discretionary power. Natsios (2010) argues that this is not the current practice. He portrays the donor community to be driven by the belief that no one can be trusted and that, consequently, discretion should be avoided altogether.

The above mentioned problems with procurement appear to be even more pronounced when looking at the current practice in development aid. For example, Wells (2014) argues that the lowest price is quite often the only award criterion. Gutman (2014: 10) states that there is a reluctance to accept non-quantifiable factors “and many developing countries have been reluctant to open the gates to greater discretion by government entities in light of concerns about transparency and corruption. Unless non-price factors can be fairly translated into financial terms, there is a concern that they will lead to subjective decisions ...”.

This approach is particularly troublesome in developing countries. One of the objectives of development aid is to build and strengthen local institutions and to cooperate with local suppliers (Natsios 2010; Gutman 2014: 7). Creating local jobs is the key to increasing local purchasing power and human capital. But procurement guidelines nowadays often run counter to this. Cooperation with local institutions and suppliers in less developed countries is seen as a risky undertaking. Local suppliers are suspected to engage in corruption, codes of conduct are non-existent and control systems, if existent, do not adhere to the standards in the US or in Western Europe. This implies that donors often prefer having little local involvement and contract directly with Western companies or internationally operating NGOs (Natsios 2010). For example, Transparency International (2014: 27-28) suggests pre supply arrangements with larger suppliers as a method for avoiding the risks of corruption. These, certainly, will be larger international suppliers. Small, local suppliers in countries affected by corruption are placed at a competitive disadvantage. This inhibits aid money to create jobs and human capital at the local level.

Kelman (2003) and Natsios (2010) thus take a radical standpoint against preventive measures. Given the poor performance, they should be abandoned in toto. If one follows this advice, corruption would be fought with repressive measures alone.

Behavioral science can provide insights into a less invasive approach to prevention, one that preserves the intrinsic motivation and work ethos. Development workers can be encouraged to be partners in the fight against corruption. Methods can be sought to encourage them to use their experience for this purpose. At a regular basis, for example, development workers gather subjective insights into the reputation of a local supplier and gain impressions in bilateral negotiations and talks with colleagues. Utilizing this experience provides a cost-effective way to sanction low-quality and corrupt suppliers. For this purpose, development workers must be given the discretionary power to place badly performing local institutions and suppliers at a competitive disadvantage. Behaviorally informed policies could then combine trust in officials with preventive methods against corruption.

EXAMPLE 4: COMPLIANCE STATEMENTS

Officials and corporate employees are often requested to sign compliance statements, declaring that they conducted all tasks and responsibilities in accordance with the requirements set forth by a code of conduct and that they abstained from paying or taking bribes. The US Department of Commerce (2011) provides a draft for such a statement. Multinational companies, government agencies and international organizations across the world have adopted such statements and request their staff to submit it once a year. In other instances, the statement must be signed at the beginning of an employment.

Reminding officials and employees of moral duties is a widespread method of diverting attention away from purely self-serving goals. But the approach is currently not based on behavioral insights. The compliance statements refer to codes of conduct and accompanying material that is often longer than 100 pages. The status quo is that people have not well read and understood this material. Being requested to sign might then be taken as a signal that the company does not consider comprehension of the material a necessary prerequisite to signing the declaration. This perception among employees and officials might be in line with the perspective of their company. By forcing employees to sign a compliance statement,

companies make sure that these take the blame for their past misdeeds. Past malpractice would have to be followed by a lie, that is, the false claim of having honored the code of conduct.

A behavioral approach would look different, seeking to provide very short, moral reminders at a time when they are salient to decision making. Such moral reminders have been widely employed for reducing corruption among the judiciary. Resnik and Curtis (2011: 38-61) show how courtrooms across space and time have reminded judges of God, virtues and their duties as a method for avoiding bribe-taking. Mazar et al. (2008) provide evidence on how such moral reminders affect behavior. Cheating decreases after participants in the laboratory recall the Ten Commandments. Shu et al. (2012) run a field study on insurance policy forms. They partnered with an automobile insurance company whose customers had to self-report the mileage of their cars. Higher mileage would increase the insurance premium and cheating on mileage would thus be financially beneficial. The authors find that the requirement to state truthful reporting upfront rather than at the end increases reported mileage from an average value of 23700 miles to 26100. Applied to bribery, the recommendation would be to let officials and employees sign a pledge of honesty and anticorruption also before they use their discretionary power. Rather than being lengthy and complex, the moral reminder would have to be very short, intuitive and easy to understand.

EXAMPLE 5: WHEN TO BE LENIENT

As argued before, repressive methods against corruption tend to go along with distrust. Subjective impressions are not verifiable in court and at risk of being reported with a bias. Criminal law requires evidence beyond reasonable doubt and this is best achieved by objective evidence that cannot be manipulated. This distrust as a guiding principle in repression can impact preventive anti-corruption methods. One example relates to regulation on corporate liability.

Penalizing companies is a difficult undertaking. A criminal act is always carried out by an individual actor, raising the question whether a whole company can also be responsible. A currently employed approach is that companies are guilty if they encourage criminal behavior or if they are negligent and fail to act against it (Arlen 1994; 2004; Laufer 2006). Companies are then punished for corruption if they turn a blind eye to their employees' bribe-giving and for tolerating fraud. But companies are granted leniency when having operated correctly as a company and the misbehavior was purely an individual transgression. Criteria have been sought to determine whether a company operated correctly. Mostly, the burden of proof is put on the companies which must provide evidence that they acted with due diligence and have a reasonable compliance program in place.

For example, the UK Bribery Act of 2010 explicitly states that it constitutes a defense if a company "had in place adequate procedures designed to prevent persons ... from undertaking the conduct." In the USA, "adequate procedures" can pave the way to reduced sentences according to the Foreign Corrupt Practices Act, the Sarbanes-Oxley Act and the Federal Sentencing Guidelines. In order to qualify for reduced penalties, many US companies and multinationals with considerable business in the US have established the requested "adequate procedures".

The problem is that companies must produce evidence of their “adequate procedures” in order to prove them in court. Companies might invest in such procedures even when they think they are ineffective, costly or contain hidden costs of control. Companies may detect approaches that are superior to the more objectively measurable “adequate procedures”. But if such methods are not verifiable and their implementation cannot be proven in court, they would fail in achieving leniency (Krawiec 2005).

One problem is that there are fixed costs to implementing “adequate procedures”. This implies that only large companies can afford them, placing small and medium sized companies at a competitive disadvantage (Erikson 2003). Much more than their large competitors, small and medium sized companies are characterized by flat hierarchies and management built on reputation and trust. If such companies engage in anticorruption, they will have difficulties proving their efforts. Granting leniency to those who have “adequate procedures” thus biases anticorruption in favor of methods for which evidence can be supplied. Methods that cannot be proven are set at a disadvantage, even if they are working well.

One example relates to companies’ use of their employee’s annual compliance statement. These can be presented as proof that the company instructed the employee well, documented that corruption is not tolerated and that any infraction is solely the employee’s responsibility. By collecting such pieces of evidence, companies can shift the responsibility of a criminal act to their employees. But this will have an impact on the trust between leaders and employees. The leader is tempted to lure employees into acts that they will regret later. Employees cease to regard leaders as a caring patron or a responsible guide. There is currently no experimental evidence that specifically addresses this topic. Still, the prevailing regularities in behavioral science are indicative that the intrinsic motivation of employees is likely to suffer.

EXAMPLE 6: THE TONE AT THE TOP

Maybe the most important factor in fighting corruption, both in the private and the public sector, is the tone at the top. This has been well shown by a recent experiment by d’Adda, Cooper and Weber (2014). Participants threw a six-sided die, were requested to memorize the rolled figure and to report this figure on their computer’s instruction screen. This task went along with an incentive to cheat: Higher reported numbers generated higher payoffs to the individual’s firm, a group of 4 participants. The participants thus had to balance more money for their firm against honesty.

Each firm consisted of a leader and three followers. Leaders made up their mind whether to influence followers towards more unethical (if leaders preferred money) or more ethical conduct (if they favored honesty) and had two options at their disposal. First, they could send messages to followers, for example by appealing to honesty or by requesting higher income. Second, leaders could reallocate some money among followers, increasing or decreasing their salary. The remarkable finding was that sending messages had the most profound impact. Followers reacted mostly to the messages sent by their leader. If leaders requested more money, followers cheated more. If leaders appealed to the followers’ honesty, cheating decreased. To the contrary, the monetary incentives that were employed by leaders had less of an impact.

This piece of experimental evidence well illustrates what many practitioners in anticorruption have long observed: The tone at the top is the most important factor that impacts ethical behavior (Erikson 2003; Kaptein and Wempe 1998: 862). People are responsive to communication, not money alone. The tone at the top can cultivate a like-minded intrinsic motivation among subordinates. And it does so by communicating a high level of trust. Kaptein and Wempe (1998: 867) argue that a “positive tone results in the code not communicating a lack of trust in the staff“. Substantial experimental evidence has been collected on how leaders can advance their subordinate’s intrinsic motivation and work effort by setting the right tone and by being attentive. Kube et al. (2012), for example, show how gifts by managers induce reciprocity by more than their material value due to the attention given to staff. Grant and Gino (2010) provide experimental evidence on how praise and expressions of gratitude can be motivating.

This evidence is in line with more widespread regularities found in behavioral science. But such insights have not been given much credit in practice because the tone at the top is not objectively measurable. Methods that seek to prevent corruption do not pay attention to the tone at the top. Leniency in court is not given for having set the right tone. Procurement does not prefer bidders who communicate a trustworthy commitment to abstain from bribery.

CONCLUSION

Methods for preventing corruption currently focus on measures whose existence and implementation can be proven beyond reasonable doubt and that can be verified solidly by outside observers. The spirit of prevention thus equals that of repression. Organizations and corporations across the world hence demand their employees to sign annual compliance statements, let them attend costly ethics trainings, expose them to time-consuming control systems, rigorously apply the four-eyes principle, limit their discretionary power, disallow them from using their subjective experience and seek to ensure that the company does not take the blame.

Experimental evidence shows that these methods perform badly. But companies that employ these methods are preferred in public procurement and in court even if the tone at the top is poor. Preventive methods can substantially profit from behavioral science, which focuses not only on objective criteria but also on less tangible factors such as sentiments, expectations, social norms, praise, communication and non-monetary incentives. Behavioral science suggests that trust is a central ingredient of prevention.

This study does not claim that prevention has been misguided in toto. Behavioral science is likely to come to a favorable judgment with respect to some of the current methods currently employed. For example methods that increase transparency, foster local participation, establish complaint mechanisms or encourage whistleblowing are likely to have worked well. If these encourage civilians, employees and officials to become partners in preventing corruption, experimental studies might bring about results that are in favor of these methods. Such approaches appeal to the truthful and honest cooperation and might encourage people to use their subjective experience and discretion to good ends. This type of communication is likely to set the right tone. For a lot of other factors, better informed behavioral policies are needed.

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