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Bad bankers no more? Truth-telling and (dis)honesty in the finance industry

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Bad bankers no more? Truth-telling and (dis)honesty in the finance industry

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Abstract

Worries about unethical behavior are a recurring issue in the finance industry, which has inspired a number of recent studies. We contribute to this ongoing discussion by investigating preferences for truthfulness within the finance industry in a controlled experiment with 415 financial professionals (and 270 students as a control group). Participants have to report one of two numbers, of which one is true, the other false, and where truth-telling is costly. In three main treatments we vary the situational context of subjects' decisions (abstract, neutral, finance context) by applying differently framed instructions. We find that contexts matter for financial professionals: they act more honestly in a financial context, while for a control group we find no such differences. Further variations on the financial decision situation do not worsen financial professionals' honesty. As driver of the observed behavior we find reputational concerns to play a major role in financial professionals' decisions.

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1 Introduction

Fraud and unethical behavior are recurring and prominent issues in the finance industry, which are costly for both consumers and the affected firms. While empirical research reveals that, for example, the largest U.S. financial institutions paid a total of more than USD 12 billion in fines between 2013 and 2016,¹ and more than seven percent of financial advisors in the US have a misconduct record (Egan et al., 2019), experimental methods allow researchers to measure honesty and lying in a controlled environment (e.g. Fischbacher and Föllmi-Heusi, 2013; Gneezy et al., 2018).² Regarding dishonesty in the finance industry, in particular, pioneering experimental research reports higher lying frequencies among bank employees when their professional identity is rendered salient and conclude that “*the prevailing business culture in the banking industry weakens and undermines the honesty norm*” (Cohn et al., 2014, p. 1). However, in recent years this interpretation has been challenged and has set a lively and fruitful academic discussion in motion. A number of studies assert that alternative explanations for bankers’ cheating behavior (e.g. involving societal expectations of bankers maximizing profits) cannot be ruled out (Stöckl, 2015; Vranka and Houdek, 2015; Hupé, 2018). In addition, a recent large-scale replication attempt by Rahwan et al. (2019) failed to replicate the initial results of more dishonest behavior among bankers across several populations—raising concerns regarding the generalizability and replicability of economic experiments with specialized, non-standard subjects such as financial professionals, and prompting additional discussions on potential selection effects (Cohn et al., 2019).

With the present study we approach the question of (dis)honesty in the finance industry from another angle, i.e. with a different experimental design, and we argue that the specific situational context affects whether professionals act truthfully. While Cohn et al. (2014) prime subjects on their (financial) professional identity, a number of studies have shown that framing an experimental task in a financial way also discourages cooperation, and thus the more “moral” behavior, in a Prisoner’s dilemma (Lieberman et al., 2004; Ellingsen et al., 2012, 2013). Turning to framing, which plays an important role in our experiment, the evidence of contextual instructions’ effects on behavior is mixed in dictator games: Dreber et al. (2013) report no (social or anti-social) framing effects, while Chang et al. (2019) show that framing an experiment in a particular context can evoke certain social norms which in turn also affect people’s choices.³

We examine financial professionals’ dishonest behavior in a truth-telling experiment where participants have to report a number where truth-telling is costly. In a between-subjects design we vary the situational context of subjects’ decisions (abstract, neutral, finance context) while keeping the

¹See Wall Street Journal <https://www.wsj.com/articles/regulators-penalties-against-wall-street-are-down-sharply-in-2017-1502028001>.

²See Irlenbusch and Villeval (2015) and Jacobsen et al. (2018) for comprehensive overviews of research on dishonest behavior; Abeler et al. (2019) provide an extensive meta-analysis of cheating experiments using the Fischbacher-Föllmi-Heusi paradigm (Fischbacher and Föllmi-Heusi, 2013).

³Alekseev et al. (2017) provide a comprehensive overview and discussion about the potential effects of using contextual instructions in various experimental settings.

sets of payoffs identical. Extending previous research on aggregate truth-telling behavior among bankers with indirect measures of social norms, we directly examine preferences for truthfulness as well as honesty norms at the individual level. With our experimental design we hope to answer several research questions. Namely, whether financial professionals are more truthful when a decision is framed in a financial context compared to an abstract or neutral context. Furthermore, financial professionals' truth-telling behavior is compared to that of students in the same decision situations.

We find that financial professionals are significantly *more* honest when the decision is framed in a financial context than when it is framed as an abstract or neutral situation. This is remarkable, because a control group of students display the same level of honesty in all three contexts, and they thus lie significantly more in a financial context than financial professionals do.

In an additional experiment, we then aim to disentangle and directly test for descriptive and injunctive social norms for dishonesty in the finance industry.⁴ We elicit norms and beliefs to understand if financial professionals and a control group of students, respectively, expect more dishonesty among finance professionals, and whether a social norm for dishonesty in the finance industry can explain behavior. Here we find that different situations evoke different social norms (Akerlof and Kranton, 2005) – injunctive and descriptive – which can potentially explain our results: the more socially *inappropriate* an action is seen by others, the less likely it is that people in our financial industry sample behave in this way.

2 The experiment

In a controlled experiment with separate sets of subjects we elicit people's preferences for truthfulness in a *truth-telling task* based on Gibson et al. (2013). We apply a between-subjects design in which all treatments are distinguished by how the particular decision situation is framed (abstract, neutral, financial context), while the mapping from a participant's set of actions to payoffs is identical for all treatments.

2.1 Truth-telling task

In this experiment we elicit subjects' preferences for truthfulness in a truth-telling task (Gibson et al., 2013). Participants are first given a true and a false number (31 and 35, respectively), which they subsequently have to report. Subjects face a choice list of five decision situations, in each of which they have to make a binary choice on whether to tell the truth (report the true number) or tell a lie (report the false number). Each decision entails a trade-off between telling the truth and a monetary compensation – i.e., truth-telling has an economic cost, which is different for each of

⁴Descriptive norms represent actions which are regularly taken by people, whereas injunctive norms describe actions which people 'should do' or are 'ought to do' (Krupka and Weber, 2013).

the five decision situations: subjects always receive 10 euros for reporting the false number (35), while the payment for reporting the true number (31) is 2, 4, 6, 8, and 10 euros, respectively, in the five decisions. The economic cost of telling the truth are thus 8, 6, 4, 2, and zero euros, respectively, in the five decision situations.

We purposely apply non-strategic decision situations; hence, an individual's payoff is independent of others' choices. Lying in this task therefore entails no consequences for other participants.⁵ While this particular set-up, mimicking a strategy method design, allows for within-subject comparisons between different economic costs of honesty, we are mainly interested in the frequency or proportion of honest reports, respectively, in the between-subject variations outlined in the next section. Our experimental design thus allows us to elicit an independent and simple measure of truth-telling for each individual subject.

2.2 Experimental treatments

In a between-subjects design with three different treatments we vary the decision *context*. For each treatment, we apply differently framed experimental instructions, in which we describe the decision situation in one of three specific contexts: an *abstract* context, a *neutral* context, and a *financial* context. These three framings reflect the three “levels” or types of contextual instructions as put forward in [Alekseev et al. \(2017\)](#): *abstract* (Treatment ABS), *meaningful* (Treatment NEU), and *evocative* (Treatment FIN). An abstract, context-free decision situation used to be the standard in early experimental economics research. However, abstract terms might be more difficult for subjects to understand and deal with. In addition, as participants might add their own context to render the situation meaningful ([Hennig-Schmidt et al., 2010](#)), an experiment with abstract terminology might lack control and external validity. A meaningful (neutral) context, in contrast, can enhance subjects' understanding by relating to naturally occurring situations, thus reducing confusion and making choices more consistent ([Alekseev et al., 2017](#)). Finally, framing the experiment as a financial decision situation – i.e., in an evocative context – places financial professionals, in particular, in an emotionally charged or connotated situation and thereby potentially leads to experimental decisions that better reflect behavior in a naturally occurring environment.

As a benchmark, we first *abstract* the task from any context in ABS: subjects are asked to imagine two states of nature of which only one is the current state which they subsequently are asked to report. The wording in ABS is:

ABS: *Imagine there are two possible states of nature and one of your tasks is to report the current state.*

Second, in NEU, we add meaning to the task but in a comparatively *neutral* setting in the sense that the terms in use should not evoke strong emotions or connotations for financial professionals

⁵We thereby follow [Gibson et al. \(2013\)](#) in aiming to eliminate any role for other-regarding, social preferences and also to prevent potential strategic considerations as in [Cohn et al. \(2014\)](#) (see [Stöckl et al., 2015](#)). Nevertheless, one can argue that e.g. considerations about the experimenter play a role; in addition, [Abeler et al. \(2019\)](#) show that related motives can affect lying behavior even in an individual decision-making task such as the seminal die-roll experiment ([Fischbacher and Föllmi-Heusi, 2013](#)).

or students: Decision-makers are asked to imagine themselves in the position of a security clerk at a museum whose task is to report the number of visitors. The wording in NEU is:

NEU: *Imagine you are a security clerk at a museum and one of your tasks is to inform the manager each week about the average number of visitors in the preceding week.*

Third, in FIN, we apply contextual instructions specifically placing participants in a *financial* decision situation. The wording in FIN is:

FIN: *Imagine you are the Chief Executive Officer (CEO) of a publicly listed company and one of your tasks is to inform shareholders each quarter about the course of business and the earnings per share.*⁶

In each of the three treatments subjects can report either the true number (31) or the false number (35), the latter resulting in a higher payoff. Full instructions are provided in Appendix A.

2.3 Experimental implementation and procedure

The experiment was conducted between November 2018 and January 2020 with two distinct subject groups: 223 financial professionals (PROF) and 166 students from the University of Innsbruck (STUD) as a control group. We recruited financial professionals from two subject pools: 115 from a proprietary pool (*before.world*) mainly consisting of portfolio managers (19%), fund managers (6%), investment managers (9%), traders (10%), analysts (13%), consultants (10%), financial advisors (16%), or similarly high-skilled areas from several different EU countries, who had already previously participated in economic experiments; and 108 from the well-established crowd-working platform *Prolific* (see Palan and Schitter, 2018) who report to be working in the 'Finance and Insurance' industry.⁷ Financial professionals were on average 37 years old; 63.8% are male, and all have previous experience with economic experiments. We conducted the experiment online using oTree (Chen et al., 2016); student subjects were recruited using hroot (Bock et al., 2014).

After reading on-screen instructions, subjects participate in one of the three treatments of the experiment described above. We then elicit subjects' beliefs by asking them to give estimates on which percentage of participants chose a specific action for each of the five decisions in the truth-telling task. Finally, participants answer the general risk attitude question (German Socio-Economic Panel SOEP, Dohmen et al., 2011) as well as a number of validated survey questions on their social preferences (Falk et al., 2018) and demographics. On average, participants took nine minutes to complete the experiment.

⁶The contextual instructions in FIN follow the instructions used in Gibson et al. (2013) but are slightly shortened and adapted to keep the compositional structure identical across treatments.

⁷Financial professionals from both subject pools are recruited individually—i.e., recruitment is independent from their employer or any other work-related motives. In addition, the experimental instructions prominently state that we ensure all participants' anonymity. Therefore, it is unlikely that a desire to appear honest towards a particular financial institution influences our results.

To determine a participant’s compensation one of the five decisions is randomly chosen at the end of the experiment, i.e. they received 10 euros if they had reported the wrong number (35), and 2, 4, 6, 8 or 10 euros if they had reported the true number (31). Financial professionals from our proprietary pool earned on average 8.16 euros with a standard deviation (s.d.) of 2.68 euros (the respective payments for professionals from Prolific and student subjects are 3.64 (s.d. 1.37) British pounds and 4.66 (s.d. 0.75) euros).⁸

3 Results

We start by briefly presenting the results from the experiments with students. Even though they are not our main subject pool of interest they can serve as a good benchmark. Here we find that overall, between 29.5% and 35.6% of students’ reports are honest (see rightmost three columns of Table 1), with no significant differences across treatments (Kruskal-Wallis rank sum test: $p = 0.732$, $N = 166$). Furthermore we observe – as can be expected – that students lie more when the economic cost of telling the truth is higher (see right panel of Figure 1).⁹ In the decision with the highest economic costs of telling the truth less than 10% of students still report the true number in any of the three contexts. A key takeaway from the results with student subjects is that we find no significant differences in truth-telling-frequencies between the three contexts.

Turning to financial professionals (see leftmost three data columns of Table 1 and left panel of Figure 1), we find markedly different patterns: while only 43.0% of reports in ABS are honest, 60.0% of reports in NEU and 66.2% of reports in FIN are honest, revealing considerable and statistically significant treatment differences as honesty is higher in NEU than in ABS (Wilcoxon rank sum test: $p = 0.006$, $N = 130$) and higher in FIN than in ABS ($p < 0.001$, $N = 154$); honesty rates are also a bit higher in FIN than in NEU but this difference is not statistically significant ($p = 0.254$, $N = 162$). Comparing the frequency of honest reports between subject groups for each treatment separately shows that professionals report more honestly than the student control group in treatments FIN than in NEU ($p < 0.001$ for both treatments in Wilcoxon rank sum tests). The difference in treatment ABS is not significant ($p = 0.074$).

A first interim conclusion is therefore, that financial professionals in our experiment were significantly *more* honest when the decision was framed in a financial context than in an abstract context, and they were significantly *more* honest than students were in the same financial context. While there is no significant difference in honesty levels in the ABS context, once the context becomes meaningful (treatments FIN than in NEU) financial professionals report more honestly than

⁸For students and financial professionals recruited through Prolific all payoffs were divided by two; subjects from Prolific are paid in British pounds instead of euros.

⁹Notably, we observe an average of 85.0% honest reports across treatments and subject groups when telling the truth comes without economic costs; see Figure 1. As this figure is in line with the equivalent percentage reported by Gibson et al. (2013) in a very similar task (82.0%) we conjecture that this arises due to the particular choice architecture inherent in the choice-list set-up of this task.

students. While students show very similar levels of honesty across abstract, neutral, and financial contexts, financial professionals decide markedly different between these situations, with the highest level of honesty in the financial context.¹⁰

Table 1: **Proportion of honest reports for financial professionals and students across treatments.** This table shows the average proportion of honest reports for financial professionals and students across treatments. Standard deviations are in parentheses.

Treatment	PROF			STUD		
	Mean	(s.d.)	<i>N</i>	Mean	(s.d.)	<i>N</i>
ABS	0.430	(0.352)	61	0.295	(0.234)	55
NEU	0.600	(0.334)	69	0.356	(0.290)	54
FIN	0.662	(0.350)	93	0.323	(0.223)	57

Figure 1 shows the percentage of dishonest reports as a function of the economic costs of honesty across all three contexts for financial professionals (PROF, left panel) and students (STUD, right panel). We are mainly interested in the level differences between treatments and subject groups, i.e. in the differences in overall truth-telling frequencies. While in PROF there is a clear ordering of treatments, as the percentage of honest reports is highest in FIN and lowest in ABS with NEU in-between, there are no systematic differences between contexts in the student subject pool. Hence, while for students, who are usually not sensitized to behave honestly in a professional environment, we find no differences between the treatments, the differences are large and significant for financial professionals. In an abstract context they report as (dis)honestly as students, but once the decision situation is given in a professional context, financial professionals report significantly more honestly than students.

Regression analyses controlling for subjects' demographics, their risk attitudes, and social preferences corroborate these results; see Table 2. Financial professionals (PROF) decide significantly more honestly than students, with the coefficient being 24.7 percentage points in regression model (1). Relating to Treatment FIN, professionals' proportion of honest reports in a financial decision situation is 38.8 percentage points higher than for students while this difference is markedly smaller in an abstract context (21.2 percentage points; see model (3)). Ordered logit regressions confirm these findings (see Table B3 in the Appendix).

Overall, the percentage of honest reports decreases significantly with the economic costs of honesty across all treatments and subjects groups (see Figure 1). Adding this term to regression analyses at the decision-level yields an average estimated effect of one economic cost instance (i.e., 1 euro for students, 1 British pound for professionals from *Prolific*, and 2 euros for professionals

¹⁰In Table B1 and Table B2 in the Appendix we further see that the observed patterns of more truth-telling by financial professionals than by students holds also separately for financial professionals from our two subject pools *before.world* and *Prolific*.

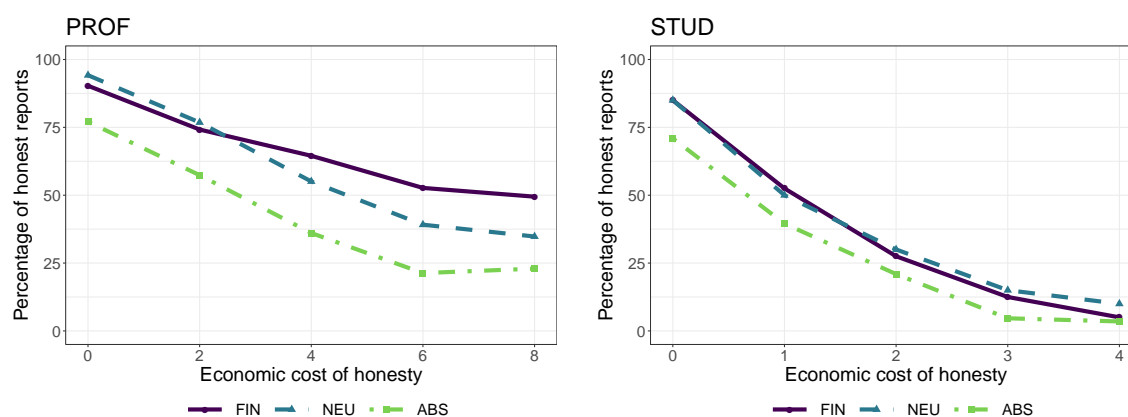


Figure 1: **Percentage of honest reports as a function of the economic costs of honesty for financial professionals and students.** This figure depicts the percentage of honest reports as a function of the economic costs of honesty for financial professionals (PROF, left) and student subjects (STUD, right) and across different contexts: FIN (solid, violet), NEU (dashed, blue), and ABS (dot-dashed, green).

from *before.world*) of -15.2 percentage points in the probability of reporting honestly ($p < 0.010$, $CI: \pm 0.014$, see Table B4) and it does not alter any of the previously reported results.¹¹

Moreover, we find subjects' beliefs about the average lying behavior to be highly correlated with subjects' own decisions (Pearson's correlation $\rho = 0.586$, $p < 0.001$). Thus, we observe similar patterns as in the truth-telling task (see Figure B1 in the Appendix): both financial professionals and students expect their peers to report more honestly with lower economic costs of honesty.

4 Truth-telling in *different* financial contexts

Up to now we have focused on differences in honesty between an *abstract* (ABS), a *neutral* (NEU), and a *financial* (FIN) context. In the latter we ask participants to imagine being a CEO having to report her company's earnings to shareholders. We find financial professionals to behave more truthfully in this financial decision situation. However, these results might also be driven by the greater economic consequences or the particular addressee of a potential lie associated with this situation in comparison with the situations in our abstract or neutral contexts, respectively. As dishonesty in a financial context is often associated with greater economic consequences – e.g. corporate fraud, overcharging, rogue and insider trading, etc. – than lying or cheating in more innocuous situations, one could expect lower levels of lying in such situations (Gneezy, 2005). In a related fashion, dishonesty in a financial context might contain a lie to one person or to many people (e.g. shareholders or the public in general), resulting in larger responsibility, which might in turn affect someone's propensity to act and appear honest.

¹¹Further regression analyses controlling for subjects' demographics, their risk attitudes, and social preferences as well as analogous logistic regression estimates corroborate our results; see tables B4 and B5 in the Appendix.

Table 2: **Linear estimation of the proportion of honest reports for financial professionals and students.** This table shows the estimated coefficients from ordinary least squares regressions on the subject-level with the proportion of honest reports as the dependent variable. *FIN* is a dummy variable taking the value 1 for treatment *FIN* and 0 otherwise; *NEU* is constructed analogously. *PROF* is a dummy variable taking the value 1 for financial professionals subjects and 0 otherwise. Clustered standard errors at the subject-level are in parentheses. n.s. $p > 0.05$, ** $p < 0.05$, *** $p < 0.01$ (double-sided tests).

	Proportion of honest reports		
	(1)	(2)	(3)
NEU	0.119*** (0.040)	0.061 (0.050)	0.071 (0.054)
FIN	0.145*** (0.038)	0.028 (0.043)	0.024 (0.047)
PROF	0.247*** (0.030)	0.135** (0.055)	0.212*** (0.058)
NEU × PROF		0.109 (0.079)	0.064 (0.080)
FIN × PROF		0.205*** (0.072)	0.176** (0.073)
Constant	0.236*** (0.030)	0.295*** (0.031)	0.333** (0.137)
Controls	No	No	Yes
Observations	389	389	389
Adjusted R ²	0.165	0.175	0.250
Wald tests:			
PROF + NEU × PROF		***	***
PROF + FIN × PROF		***	***
NEU + NEU × PROF		***	**
FIN + FIN × PROF		***	***
NEU + NEU × PROF −FIN − FIN × PROF		n.s.	n.s.

To explore the influence of such variations we introduce three additional treatments to compare them to Treatment FIN: With treatments FIN_{HA}^{MANY} , FIN_{HA}^{ONE} , and FIN_{SEV}^{ONE} , for which we recruited another 192 financial professionals from *Prolific*, we complement Treatment FIN by varying the addressee of the lie (*one* manager or *many* shareholders) and the severity of the consequences (harmless or severe), while always remaining in a financial context.¹²

Comparing our results from above with the three new treatments, we find significantly higher frequencies of reporting the honest answer in FIN_{HA}^{MANY} , FIN_{HA}^{ONE} , and FIN_{SEV}^{ONE} (between 63.0 and 70.3 percent, see Table 3) than in the ABS treatment with financial professionals (all $p \leq 0.001$, Wilcoxon rank sum tests).¹³ Moreover, regardless of the addressee of the lie and the severity of consequences, proportions of honest answers in a financial decision situation are significantly higher for financial professionals than for any of the treatments for the control group of students (all $p < 0.001$, Wilcoxon rank sum tests).

As is visible in Figure 2, this higher level of honesty is present in all four treatments with a financial context as well as in the treatment with the neutral context. In all of these five treatments financial professionals decide significantly more honestly than in the abstract context.

Table 3: **Proportion of honest reports for financial professionals and students across treatments.** This table shows the average proportion of honest reports for financial professionals and students across treatments. Standard deviations are in parentheses.

				PROF		STUD	
				Mean	(s.d.)	Mean	(s.d.)
		Treatment					
Addressee(s) of the lie	MANY (shareholders)	SEVere conseq.	FIN	0.662	(0.350)	0.323	(0.223)
		HARMless conseq.	FIN_{HA}^{MANY}	0.630	(0.402)		
	ONE (supervisor)	SEVere conseq.	FIN_{SEV}^{ONE}	0.663	(0.359)		
		HARMless conseq.	FIN_{HA}^{ONE}	0.703	(0.349)		

Furthermore, as the linear regression estimates in Table 4 show, financial professionals give significantly more honest answers in each of the financially-framed treatments and the neutrally-framed treatment than in the abstract one, while for students we find no differences between treatments (see Table 2 above).¹⁴ These findings thus corroborate our conclusions from above: financial professionals act more honestly in a financial context than in an abstract context and more honestly than students do in a financial context. Crucially, our additional treatment variations – the

¹²Treatment FIN can be characterized to have many addressees (shareholders) and severe consequences, as it is about the company’s earnings report – hence, this treatment together with the three new treatments fit in a 2×2 design varying the number of addressees (ONE or MANY) and the severity of consequences (HARMless or SEVere). Full instructions are provided in Appendix A.

¹³While the financial professionals’ percentages of honest answers in FIN_{HA}^{MANY} , FIN_{HA}^{ONE} , and FIN_{SEV}^{ONE} are all larger than in NEU, the respective p -values from pairwise Wilcoxon rank sum tests are 0.547, 0.067, and 0.274.

¹⁴Results are equivalent for ordinary least squares and logit regression estimates at the decision-level, controlling for the economic costs of honesty as well as subjects’ individual characteristics; see tables B6, B7 in the Appendix.

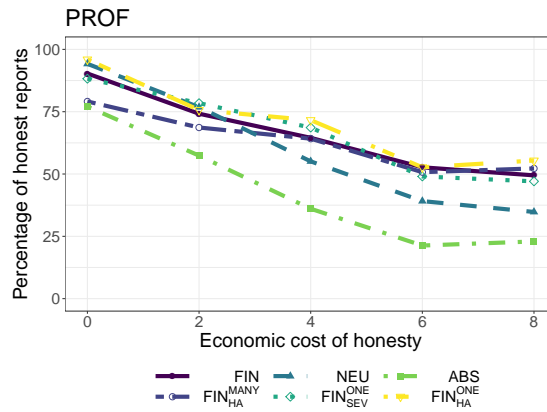


Figure 2: **Percentage of honest reports as a function of the economic costs of honesty for financial professionals across different treatments.** This figure depicts the percentage of honest reports as a function of the economic costs of honesty for financial professionals (PROF) across different contexts, different levels of severity of a lie’s consequences and different addressees of the lie: FIN (solid, violet), FIN_{HA}^{MANY} (dashed, violet), FIN_{SEV}^{ONE} (dotted, cyan), FIN_{HA}^{ONE} (dashed, yellow), NEU (dashed, blue), and ABS (dot-dashed, green).

perceived severity and addressee of a lie – do not reduce truth-telling frequencies and can thus not explain the robust differences we observe between decisions in a financial and in other decision situations. Hence, our results reveal that financial professionals behave more honestly in a financial context, regardless of the particular nature of the assumed decision situation.

To further explore potential drivers of differences in the frequency of lying we asked 300 of the financial professionals (those recruited through *Prolific*) to assess (1) the perceived severity of consequences, and (2) to which degree reputational concerns regarding the finance industry have influenced their decisions. Both questions were measured on a Likert scale from 1 to 7 and each subject answered only for the treatment he/she was in. The results are presented in Figure 3. In the left panel we see that participants did indeed perceive the treatments we labelled “HA” for harmless consequences as having less severe consequences than those we labelled “SEV” for severe consequences. The only exception is treatment FIN_{HA}^{MANY} , which is perceived to have as severe consequences as the two treatments we classified as “SEV”. We conjecture that this is driven by the fact that here we have numerous addressees (the shareholders), while all other “harmless” treatments have one addressee, but we do not have hard facts on that.

Turning to the right panel of Figure 3 we see that the influence of reputational concerns is assessed to be much lower in the abstract and neutral treatments than in any of the four treatments we presented in a financial context. Hence, we see especially reputational concerns as a major driver of financial professionals’ decisions. Possibly the strong regulatory pressure and (often negative) media coverage of the financial industry since the financial crisis of 2008/09 have changed the sensitivity to truth-full behaviour and work ethics of financial professionals for the better. What

Table 4: Linear estimation of the proportion of honest reports for financial professionals across different treatments. This table shows the estimated coefficients from ordinary least squares regressions on the subject-level with the proportion of honest reports as the dependent variable. FIN is a dummy variable taking the value 1 for treatment FIN and 0 otherwise; NEU, FIN_{HA}^{ONE} , FIN_{HA}^{MANY} , and FIN_{SEV}^{ONE} are constructed analogously. Clustered standard errors at the subject-level are in parentheses. ** $p < 0.05$, *** $p < 0.01$ (double-sided tests).

	Proportion of honest reports	
	(1)	(2)
NEU	0.170*** (0.060)	0.134** (0.058)
FIN	0.233*** (0.058)	0.201*** (0.056)
FIN_{HA}^{ONE}	0.273*** (0.061)	0.192*** (0.062)
FIN_{HA}^{MANY}	0.200*** (0.067)	0.132** (0.067)
FIN_{SEV}^{ONE}	0.233*** (0.067)	0.198*** (0.068)
Constant	0.430*** (0.045)	0.285 (0.160)
Controls	No	Yes
Observations	415	415
Adjusted R ²	0.043	0.119

our results show is that reputational concerns do play a major role in their decision-making in a truth-telling task leading to more honest replies than in an abstract context.

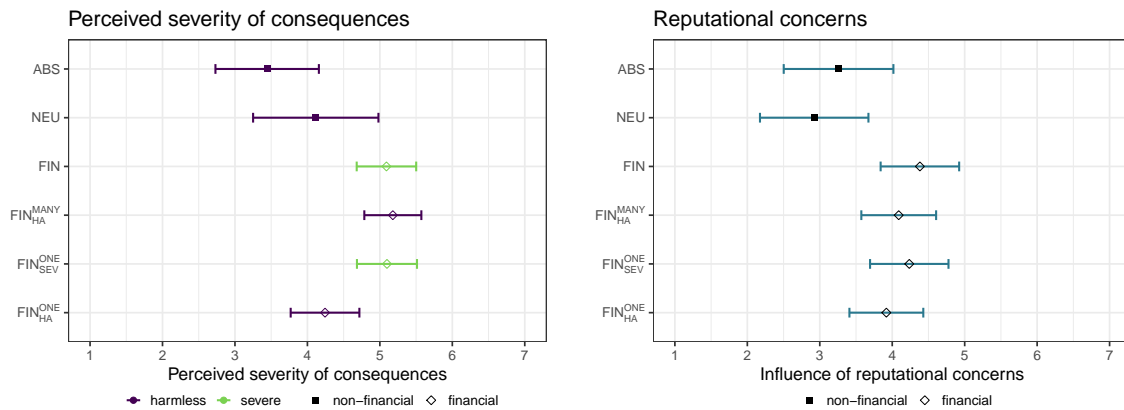


Figure 3: **Perceived severity of a lie’s consequences and the influence of reputational concerns on dishonest behavior.** This figure shows subjects’ mean answers regarding the perceived severity of a lie’s consequences (left, ‘How serious do you estimate the consequences of your actions in the scenarios presented?’) and regarding the influence of reputational concerns about the finance industry (right, ‘How much were your decisions influenced by concerns about the reputation of the finance industry?’) on their decisions on a Likert scale from 1 (‘not serious at all’ / ‘concerns played no role at all’) to 7 (‘very serious’ / ‘concerns mattered a lot’). The whiskers indicate the 95% confidence intervals; $N = 300$.

5 Social norms as a possible explanation for (dis)honesty

Finally, we want to explore if and to which degree the behavior we observe can be explained by social norms. Building on the social identity model by Akerlof and Kranton (2000, 2005), Chang et al. (2019) present evidence that framing an experiment in a particular context evokes certain social norms which in turn affect people’s choices. We posit that differently framed decision situations raise different social norms for (dis)honesty – that is, people might decide to lie or not to lie depending on the prevailing social norms in the specific situational context.

Thus, we are particularly interested in both people’s *descriptive* norms – that is, the beliefs others hold about either students’ or financial professionals’ decisions – as well as their *injunctive* norms – i.e., what people think one ‘should do’ or is ‘ought to do’. To shed some light on this possible explanation for the (dis)honest behavior we observe, as final step in this research program, we conducted an additional norm-elicitation experiment with a new set of subjects.

5.1 Norm-elicitation experiment

In the norm-elicitation experiment we elicit social norms towards (dis)honesty for each of the five decisions in the same three treatments FIN, NEU, and ABS we conducted with students and financial professionals as presented in sections 2 and 3.

To elicit the underlying injunctive social norms, we adapt the social norm-elicitation procedure of Krupka and Weber (2013) to our truth-telling task: we describe one of the decision situations, a specific action, and its consequences regarding a participant's compensation, and then ask subjects to assess the social appropriateness of this specific action on a 6-point scale from 'very socially appropriate' to 'very socially inappropriate' (Kimbrough and Vostroknutov, 2016; Krupka et al., 2017; see Appendix for a screenshot of the decision screen). In a coordination game set-up, subjects in this norm-elicitation task are incentivized to choose for each action the social appropriateness rating most likely to be assigned to this action by other participants: they receive 4 euros for participation and additional 6 euros if their social appropriateness assessment matches the mode from all participants' assessments in one randomly determined decision.¹⁵

Then, to elicit descriptive norms, we ask for subjects' beliefs by eliciting estimates on what percentage of participants chose a specific action for each of the five decisions in the truth-telling task of the main experiment.

For this experiment we recruited another 138 students from the University of Innsbruck and 45 financial professionals from the *before.world* subject pool described above. 70 students assessed other students' decisions while 68 students assessed financial professionals' decisions. We consciously chose to follow Krupka and Weber (2013) and most of the related literature in recruiting a separate set of subjects for the norm elicitation experiment: as no subject in this additional experiment participated in the main experiment, this should lead to both social appropriateness ratings and beliefs elicited here being independent from subjects' actual behavior in the truth-telling task. While such a between-subjects comparison between social norms and behavior might suffer from idiosyncrasies in the used subject pools (D'Adda et al., 2016), we are confident that our subjects in both experiments are sufficiently comparable.¹⁶

5.2 Results from the Norm-elicitation experiment

Figure 4 shows our main result on injunctive social norms for (dis)honesty, depicting the average social appropriateness ratings pooled over decisions for all three contexts for three combinations: students assessing the social appropriateness of other students' actions (STUD), students assessing the social appropriateness of financial professionals' actions (STUD^{PROF}), and financial profession-

¹⁵As in the main experiment, all payoffs are divided by two for student subjects.

¹⁶We applied the same recruitment procedures as in the main experiment described above (Section 2). The samples' demographics are comparable to the ones in the main experiment (see Table B9 in the Appendix).

als assessing the social appropriateness of other financial professionals' actions (PROF) on a scale from -1 ('very socially inappropriate') to $+1$ ('very socially appropriate').¹⁷

As we see on the leftmost panel of Figure 4 with social appropriateness levels of -0.17 (FIN), -0.15 (NEU), and -0.03 (ABS), we observe that students in STUD across all contexts find it only slightly socially inappropriate to report dishonest numbers. This holds also when students assess the social appropriateness of actions by financial professionals. However, financial professionals (PROF) see dishonest reports as significantly less appropriate with levels of -0.87 (FIN, Wilcoxon rank sum test STUD vs. PROF: $p < 0.001$, $N = 33$), -0.42 (NEU, $p = 0.043$, $N = 44$), and -0.59 (ABS, $p < 0.001$, $N = 38$), respectively. In addition, social appropriateness levels for dishonest reports among professionals are significantly lower in the financial context (FIN) than in either ABS (Wilcoxon rank sum test: $p = 0.021$, $N = 29$) or NEU ($p < 0.001$, $N = 29$) ones.¹⁸ Relating financial professionals' assessments in the right panel of Figure 4 to their behavior, we find that the variation in contexts produces comparable effects on social norms as on choices: lying is seen as least appropriate in a financial context – precisely where we observe the most honest behavior among professionals.

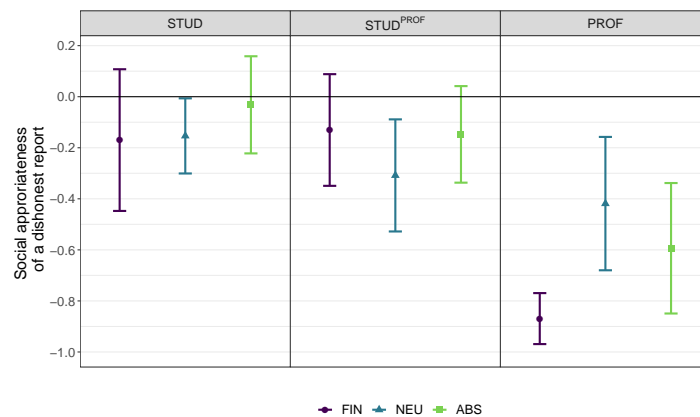


Figure 4: **Social appropriateness of a dishonest report across subject groups and treatments.**

This figure shows the mean level of social appropriateness for giving a dishonest report (on a scale from -1 = very socially inappropriate to $+1$ = very socially appropriate) for each context for students assessing the social appropriateness of other students' actions (STUD), students assessing the social appropriateness of financial professionals' actions (STUD^{PROF}), and financial professionals assessing the social appropriateness of other financial professionals' actions (PROF). The whiskers indicate the 95% confidence intervals; $N = 183$.

¹⁷In contrast to the percentage of dishonest reports, social appropriateness levels vary only very little with respect to the economic costs of honesty in each decision situation (Pearson's $\rho = 0.041$, $p = 0.217$ and $\rho = -0.012$, $p = 0.707$ for honest and dishonest reports, respectively). Thus, we present averages across economic costs per subject group and context. As participants assigned to all dishonest reports a social appropriateness level below zero, we depict the negative domain only.

¹⁸For social appropriateness assessments of honest reports we find similar results but with smaller differences between subject groups. While financial professionals regard honest reports as most socially appropriate in ABS (Wilcoxon rank sum test STUD vs. PROF: $p = 0.099$, $N = 38$) and FIN ($p = 0.028$, $N = 33$), in NEU social appropriateness ratings are very similar across subject groups (Kruskal-Wallis rank sum test: $p = 0.515$, $N = 68$).

Taken together, these results suggest that the variations in dishonest reports between subject groups and, crucially, between contexts, we observe in the main experiment, can to a large extent be explained by differences in social norms. To directly test this proposition, we can estimate the probability of a dishonest report with a logit regression model with the social appropriateness of an action as the explanatory variable (Krupka and Weber, 2013). As these logit regressions yield complete separation, as a social appropriateness rating larger or equal than .0182 perfectly predicts truth-telling, the *injunctive* social norms elicited by a separate group of subjects perfectly predict dishonest behavior for both students and financial professionals.

Turning now to descriptive social norms, we examine the relationship between subjects' prevailing expectations about lying behavior from the norm-elicitation experiment and the actual percentages of dishonest reports in the main experiment (remember that these are from a different set of subjects). Among financial professionals we observe that this separate group of professionals' expectations in the norm-elicitation experiment is very well aligned with actual patterns in truth-telling decisions in the main experiment: an ordinary least squares regression with averages per context and economic cost of honesty yields an adjusted $R^2 = 0.861$ with a coefficient of 1.346 ($p < 0.010$, $CI: \pm 0.282$, see Table B8 in the Appendix) for the expected percentage. The steep slope of the fitted line, however, reveals that professionals expect even more honest reports than we find in the experiment:¹⁹ for example, as depicted in the left panel of Figure 5, financial professionals expect their peers to be honest in at least 42.7% of reports, while our results from the main experiment reveal that, actually, in a third of cases the percentage of honest reports is below 42.7%.

Furthermore, we elicited students' beliefs about financial professionals' behavior in order to test whether students' expectations (as an outside group or proxy for societal expectations) about professionals in the finance industry can explain our results (e.g. Vranka and Houdek, 2015). Hence, we test whether financial professionals' truth-telling decisions can be explained by expectations from a population sample from outside the finance industry. Here, we observe that an ordinary least square's fit is considerably worse when regressing students' expectations about professionals' decisions on professionals' actual reports (adjusted $R^2 = 0.438$, see Table B8 in the Appendix).²⁰ From Figure 5 one can also see that the regression's fit in $STUD^{PROF}$ is quite good in NEU, but there seems to be hardly any relationship between expected reports and actual reports in the other two treatments.

Hence, we conclude that descriptive norms – i.e., collective expectations about people's behavior – as well as injunctive norms (perceptions about what one 'ought to do') can explain our observed patterns: framed costs of honesty affect financial professional's propensity to report dishonestly, and professionals are most honest in the financial context and least honest in the abstract con-

¹⁹Testing whether the slope coefficient is different from 1 using a two-sided Wald-test yields $p = 0.032$, suggesting that the slope is significantly larger than 1.

²⁰The fit for regressing students' expectations about other students' decisions on students' actual reports is only slightly better, with an adjusted $R^2 = 0.651$, see Table B8 in the Appendix.

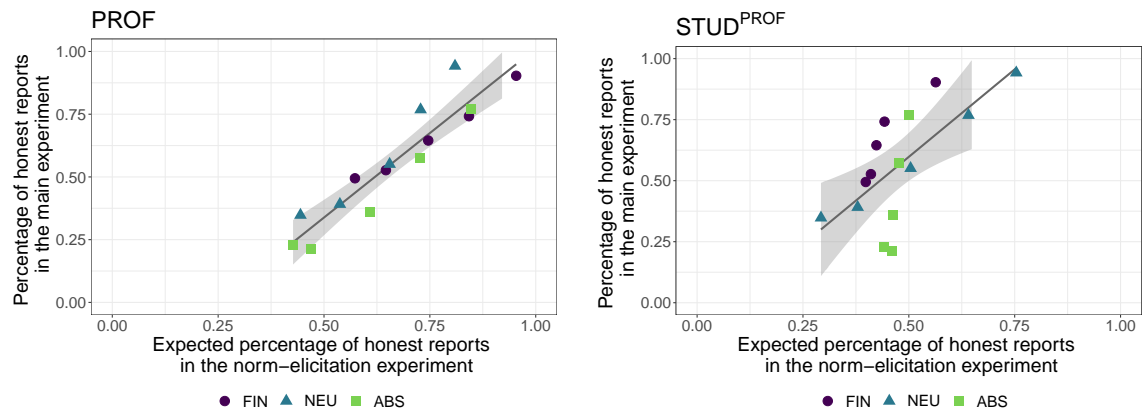


Figure 5: **Percentage of honest reports as a function of expectations by a separate groups of subjects.** This figure represents the relationship between the expected percentage of honest reports from the norm-elicitation experiment and the actual percentage of honest reports we observe in the main experiment. On the left panel we present the results from financial professionals who assess other financial professionals’ decisions (PROF), the right panel presents results from student subjects—i.e., a group of subjects not involved in the finance industry—who assess financial professionals’ decisions (STUD^{PROF}).

text. In contrast, we find no evidence that students’ expectations or stereotypes about the finance industry are able to predict truth-telling among subjects from the finance industry.

6 Conclusion

In this study we examined (dis)honest behavior in different framings to disentangle and directly test how different situational contexts, the perceived severeness of consequences, and the number of addressees influence truth-telling of financial professionals. Overall, we find that financial professionals strongly react to different contexts/framings as they are significantly more honest in a financial context in comparison to a neutral but meaningful and an abstract one. Students, by contrast, show no differences between situational frames. Thus, compared to students we find significantly higher rates of honest reports for financial professionals, mostly driven by decisions in a financially-framed situation.

Similar to our results for students, Cappelen et al. (2013) find no significant reduction in lying frequencies among students when primed with a market context. While Cohn et al. (2014) argue that the prevalent business culture in the banking industry leads to more frequent lying, we demonstrate that financial professionals lie less frequently in a financial decision situation.

Thus, we show that professionals’ behavior is context- and situation-dependent with the highest level of truth-telling in a financial context. In addition to a social identity-driven explanation, we illustrate that different situations evoke different social norms (Akerlof and Kranton, 2005) – injunctive and descriptive – which can potentially explain our results: the more socially

inappropriate an action is seen by financial professionals, the less likely it is that people in our financial industry sample carry out this particular action. Finally, we largely reject a societal expectations-explanation of the observed honesty and dishonesty, respectively, as predictions from a student sample for the finance sample cannot really explain our results.

What drives and explains the higher level of honest decisions of financial professionals in the financial context? The two possible explanations we see are that (i) the increased negative media coverage and new regulation after the financial crisis of 2008/09 has led to a higher awareness and higher ethical standards in the finance industry. E.g., the European Union's Market in Financial Instruments Directive II (MiFID II; [2014/65/EU2014](#), 2014) puts financial professionals under closer scrutiny by regulators, lawyers, and the media. As a consequence financial professionals may have become more sensitive towards reputational (and financial) consequences of dishonest behavior and misconduct and, thus, they may act more honestly in financial decision situations. Our results lend some support to this interpretation, as our financial professional participants reported that reputational concerns played a major role in their decision-making, leading to more honest replies in the financial context than in an abstract context.

(ii) An alternative explanation would be, that what we see here is an instance of a very general phenomenon; namely that most professions operate under rules (legal and moral) that are not well understood by outsiders, like e.g. students as in our control group. Student subjects thus did not predict the higher level of honest answers by financial professionals, while within the profession this was well-understood and also acted upon accordingly. In a future research project a similar setting to ours could be applied to several other professions (say medical doctors, car mechanics, etc.) to explore whether the higher degree of honesty compared to students is specific for the finance industry or a more general property of many professions.

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Appendix to
‘Bad bankers no more?’
Truth-telling and (dis)honesty in the finance industry’

Christoph Huber and Jürgen Huber

A Experimental instructions

Main experiment: Truth-telling task

Dear participant,

Thank you very much for accepting our invitation to take part in this experiment. We are researchers from the University of Innsbruck conducting a short study which is intended to take about 10 minutes. With your participation, you will make an important contribution to research and you can earn money throughout the experiment.

After the experiment you will have several different options to collect your payment.

All data will be anonymous and no individual results will be disclosed publicly or to other participants of the experiment. The data will only be used for scientific purposes. This online study adheres to the principles of economic experiments: participants are not deceived and earnings are paid out in real. We guarantee at each stage of the data analyses that we will not trace back experimental decisions to participants’ identities.

Please do not continue if you are on a mobile device – the experiment cannot be properly displayed on small screens. Also note that you will not be able to go back to previous pages throughout the whole study.

Thank you very much for participating!

————— (new page) —————

ABS: Imagine there are two possible states of nature and one of your tasks is to report the current state. The higher the reported state, the higher will be your compensation. You know the true state, but others do not. A state of 35 is anticipated, but you know that 31 would more accurately reflect the actual number.

————— (new page) —————

In the following, there will be five possible situations for each of which you have to make a choice on what state you will report.

The state you report determines how much money you will be paid. At the end of the experiment one of the five choices will be randomly drawn for payment.

—————

NEU: Imagine you are a security clerk at a museum and one of your tasks is to inform the manager each week about the average number of visitors in the preceding week. The higher the number of visitors, the higher will be your compensation. As the security clerk, you know the true number of visitors, but the manager does not. The manager anticipates 35 visitors per day, but you know that 31 visitors per day would more accurately reflect the actual number.

————— (new page) —————

In the following, there will be five possible situations for each of which you have to make a choice on how many visitors you will report.

The number of visitors you report determines how much money you will be paid. At the end of the experiment one of the five choices will be randomly drawn for payment.

—————

FIN: Imagine you are the Chief Executive Officer (CEO) of a publicly listed company and one of your tasks is to inform shareholders each quarter about the course of business and the earnings per share. The higher the announced earnings, the higher will be your compensation. As the CEO, you know the true earnings, but shareholders do not. Shareholders anticipate the announcement of 35 cents as earnings per share, but you know that earnings of 31 cents per share would more accurately reflect the actual number.

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In the following, there will be five possible situations for each of which you have to make a choice on how many cents of earnings per share you will announce.

The earnings you announce determine how much money you will be paid. At the end of the experiment one of the five choices will be randomly drawn for payment.

FIN_{HA}^{ONE}: Imagine you are a bank clerk at a bank and one of your tasks is to inform the manager each week about the average number of informal loan requests in the preceding week. The higher the number of requests, the higher will be your compensation. As a bank clerk, you know the true number of requests, but the manager does not. The manager anticipates 35 requests per week, but you know that 31 requests per week would more accurately reflect the actual number.

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In the following, there will be five possible situations for each of which you have to make a choice on how many informal loan requests you will report.

The informal loan requests you report determine how much you will get in bonus payments. At the end of the experiment one of the five choices will be randomly drawn for payment.

FIN_{SEV}^{ONE}: Imagine you are a portfolio manager at a large bank and one of your tasks is to inform the manager each week about the average portfolio performance in the preceding week. The higher the performance, the higher will be your compensation. As a portfolio manager, you know the true performance,

but the manager does not. The manager anticipates gains of 35 thousand dollars, but you know that gains of 31 thousand dollars would more accurately reflect the actual number.

————— (new page) —————

In the following, there will be five possible situations for each of which you have to make a choice on how many thousand dollars in portfolio gains you will report.

The portfolio gains you report determine how much you will get in bonus payments At the end of the experiment one of the five choices will be randomly drawn for payment.

FIN^{MANY}_{HA}: Imagine you are the Chief Executive Officer (CEO) of a publicly listed company and one of your tasks is to inform shareholders each quarter about the extent of the company's charitable donations. The higher the reported donations, the higher will be your compensation. As the CEO, you know the true donations, but shareholders do not. Shareholders anticipate the announcement of 35 thousand dollars in charitable donations, but you know that charitable donations of 31 thousand dollars would more accurately reflect the actual number.

————— (new page) —————

In the following, there will be five possible situations for each of which you have to make a choice on how many thousand dollars of charitable donations you will announce.

The charitable donations you announce determine how much you will get in bonus payments At the end of the experiment one of the five choices will be randomly drawn for payment.

Norm-elicitation experiment

Dear participant,

Thank you very much for accepting our invitation to take part in this experiment. We are researchers from the University of Innsbruck conducting a short study which is intended to take about 10 minutes. With your participation, you will make an important contribution to research and you can earn money: you receive 4 euros for participating in this experiment and can earn additional money throughout the experiment.

After the experiment you will have several different options to collect your payment.

All data will be anonymous and no individual results will be disclosed publicly or to other participants of the experiment. The data will only be used for scientific purposes. This online study adheres to the principles of economic experiments: participants are not deceived and earnings are paid out in real. We guarantee at each stage of the data analyses that we will not trace back experimental decisions to participants' identities.

Please do not continue if you are on a mobile device – the experiment cannot be properly displayed on small screens. Also note that you will not be able to go back to previous pages throughout the whole study.

Thank you very much for participating!

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On the following screens, you will read descriptions of a series of situations.

Each situation corresponds to a situation in an online experiment, which we are conducting with a group of subjects. The participants in this experiment are financial professionals predominantly occupied as Private Banker, Trader, Investment Banker, Portfolio Manager, or Fund Manager.

In each of the described situations one experimental participant, "Participant A", must make a decision. For each situation, you will be given a description of the decision faced by Participant A. This description will include several possible choices available to this participant.

For this task you will earn an additional 6 euros if you give the response most frequently given by other participants. Specifically: at the end of the experiment, we will randomly select one of the situations and one of the experimental participant's possible choices in that situation. If you select the answer most frequently selected by other participants, you will earn 6 euros from this task.

(new page)

ABS: Participant A should imagine that there are two possible states of nature and one of the participant's tasks is to report the current state. The higher the reported state, the higher will be the participant's compensation. The participant knows the true state, but others do not. A state of 35 is anticipated, but the participant knows that 31 would more accurately reflect the actual number.

Participant A has two choices:

- Report 31. In this case, the participant's compensation will be 2 EUR.
- Report 35. In this case, the participant's compensation will be 10 EUR.

NEU: Participant A should imagine that he/she is a security clerk at a museum and one of the participant's tasks is to inform the manager each week about the average number of visitors in the preceding week. The higher the number of visitors, the higher will be the participant's compensation. As the security clerk, the participant knows the true number of visitors, but the manager does not. The manager anticipates 35 visitors per day, but the participant knows that 31 visitors per day would more accurately reflect the actual number.

Participant A has two choices:

- Report 31 visitors. In this case, the participant's compensation will be 2 EUR.
- Report 35 visitors. In this case, the participant's compensation will be 10 EUR.

FIN: Participant A should imagine that he/she is the Chief Executive Officer (CEO) of a publicly listed company and one of the participant's tasks is to inform shareholders each quarter about the course of business and the earnings per share. The higher the announced earnings, the higher will be the participant's compensation. As the CEO, the participant knows the true earnings, but shareholders do not. Shareholders anticipate the announcement of 35 cents as earnings per share, but the participant knows that earnings of 31 cents per share would more accurately reflect the actual number.

Participant A has two choices:

- Announce 31 cents per share. In this case, the participant's compensation will be 2 EUR.
- Announce 35 cents per share. In this case, the participant's compensation will be 10 EUR.

Your Task: For each of Participant A's options, please indicate whether you believe choosing that option is very socially inappropriate, socially inappropriate, somewhat socially inappropriate, somewhat socially appropriate, socially appropriate, or very socially appropriate.

Screenshots of the decision screens

Decision

Which earnings will you announce?

Please choose one alternative in each of the following five situations.

<input type="radio"/> 31 cents per share	In this case, your compensation will be 2 EUR .
<input type="radio"/> 35 cents per share	In this case, your compensation will be 10 EUR .
<input type="radio"/> 31 cents per share	In this case, your compensation will be 4 EUR .
<input type="radio"/> 35 cents per share	In this case, your compensation will be 10 EUR .
<input type="radio"/> 31 cents per share	In this case, your compensation will be 6 EUR .
<input type="radio"/> 35 cents per share	In this case, your compensation will be 10 EUR .
<input type="radio"/> 31 cents per share	In this case, your compensation will be 8 EUR .
<input type="radio"/> 35 cents per share	In this case, your compensation will be 10 EUR .
<input type="radio"/> 31 cents per share	In this case, your compensation will be 10 EUR .
<input type="radio"/> 35 cents per share	In this case, your compensation will be 10 EUR .

Next

Figure A1: Exemplary screenshot of the decision screen in the main experiment (truth-telling task) in Treatment FIN.

Decision

Which earnings do you think other participants announce?

Please enter the *percentage of participant which you think announce 35 cents* for each of the following five situations.

<input type="radio"/> 31 cents per share	In this case, the participant's compensation will be 2 EUR.
<input type="radio"/> 35 cents per share	In this case, the participant's compensation will be 10 EUR.
What percentage of participants do you think announce 35 cents in this situation?	<input type="text"/> %
<input type="radio"/> 31 cents per share	In this case, the participant's compensation will be 4 EUR.
<input type="radio"/> 35 cents per share	In this case, the participant's compensation will be 10 EUR.
What percentage of participants do you think announce 35 cents in this situation?	<input type="text"/> %
<input type="radio"/> 31 cents per share	In this case, the participant's compensation will be 6 EUR.
<input type="radio"/> 35 cents per share	In this case, the participant's compensation will be 10 EUR.
What percentage of participants do you think announce 35 cents in this situation?	<input type="text"/> %
<input type="radio"/> 31 cents per share	In this case, the participant's compensation will be 8 EUR.
<input type="radio"/> 35 cents per share	In this case, the participant's compensation will be 10 EUR.
What percentage of participants do you think announce 35 cents in this situation?	<input type="text"/> %
<input type="radio"/> 31 cents per share	In this case, the participant's compensation will be 10 EUR.
<input type="radio"/> 35 cents per share	In this case, the participant's compensation will be 10 EUR.
What percentage of participants do you think announce 35 cents in this situation?	<input type="text"/> %

Next

Figure A2: Exemplary screenshot of the decision screen in the belief elicitation in Treatment FIN. This screen is identical for the main experiment and the norm-elicitation experiment.

Questionnaire

Please answer the following questions.

How serious do you estimate the consequences of your actions in the scenarios presented?

not serious at all (harmless)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	very serious (severe)
	1	2	3	4	5	6	7	

How much were your decisions influenced by concerns about the reputation of the financial industry?

these concerns played no role at all	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	these concerns mattered a lot
	1	2	3	4	5	6	7	

Next

Figure A3: Screenshot of the decision screen for eliciting subjects' perceived severity of a lie and their reputational concerns.

Situation 1

Participant A should imagine that he/she is the Chief Executive Officer (CEO) of a publicly listed company and one of the participant's tasks is to inform shareholders each quarter about the course of business and the earnings per share. The higher the announced earnings, the higher will be the participant's compensation.
As the CEO, the participant knows the true earnings, but shareholders do not. Shareholders anticipate the announcement of 35 cents as earnings per share, but the participant knows that earnings of 31 cents per share would more accurately reflect the actual number.

Participant A has two choices:

- Announce **31 cents** per share In this case, the participant's compensation will be **2 EUR**.
- Announce **35 cents** per share In this case, the participant's compensation will be **10 EUR**.

Your Task:

For each of Participant A's options, please indicate whether you believe choosing that option is very socially inappropriate, socially inappropriate, somewhat socially inappropriate, somewhat socially appropriate, socially appropriate, or very socially appropriate.

Participant A announces 31 cents.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	very socially inappropriate	socially inappropriate	somewhat socially inappropriate	somewhat socially appropriate	socially appropriate	very socially appropriate
Participant A announces 35 cents.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	very socially inappropriate	socially inappropriate	somewhat socially inappropriate	somewhat socially appropriate	socially appropriate	very socially appropriate

Next

Figure A4: Exemplary screenshot of the decision screen in the norm-elicitation experiment in Treatment FIN.

B Additional Figures and Tables

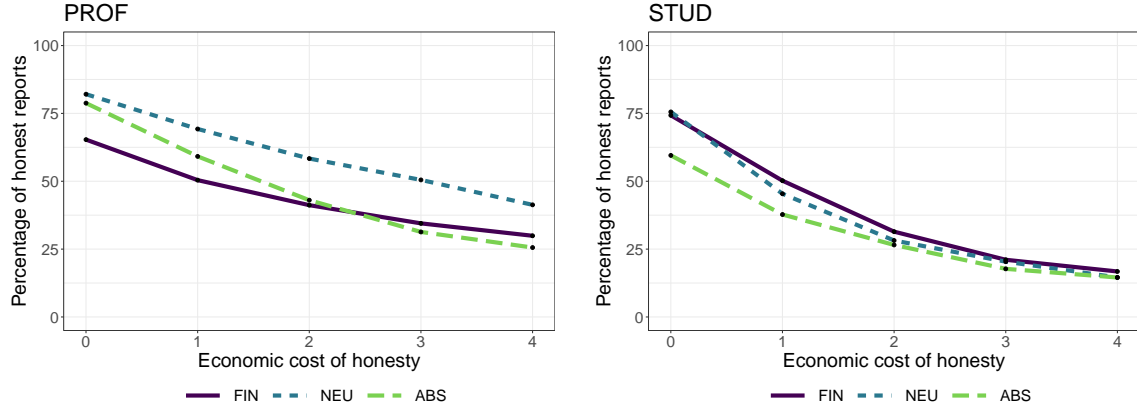


Figure B1: **Beliefs about the percentage of honest reports as a function of the economic costs of honesty.** This figure shows subjects' beliefs about the average percentage of honest reports for each economic cost instance (main experiment).

Table B1: **Proportion of honest reports per subject pool across treatments.** This table shows the average proportion of honest reports for each subject pool across all treatments. We run pairwise two-sided Wilcoxon rank sum test for differences between subject pools. **, and *** indicate significance at the 10%, 5%, and 1% level for differences between "PROF: before.world" and STUD; ++, and +++ indicate significance at the 10%, 5%, and 1% level for differences between "PROF: Prolific" and STUD; #, and ### indicate significance at the 10%, 5%, and 1% level for differences between "PROF: before.world" and "PROF: Prolific".

Treatment	PROF: before.world			PROF: Prolific			STUD		
	Mean	SD	N	Mean	SD	N	Mean	SD	N
ABS	0.376	0.351	34	0.496 ⁺⁺	0.348	27	0.295 ⁺⁺	0.234	55
NEU	0.521 ^{*** ##}	0.306	43	0.731 ^{+++ ##}	0.344	26	0.356 ^{*** +++}	0.290	54
FIN	0.653 ^{***}	0.314	38	0.669 ⁺⁺⁺	0.376	55	0.323 ^{*** +++}	0.223	57
FIN _{HA} ^{MANY}				0.630	0.402	67			
FIN _{HA} ^{ONE}				0.703	0.349	74			
FIN _{SEV} ^{ONE}				0.663	0.359	51			

Table B2: **Linear estimation of the proportion of honest reports for financial professionals from different subject pools.** This table shows the estimated coefficients from ordinary least squares regressions on the subject-level with the proportion of honest reports as the dependent variable. FIN is a dummy variable taking the value 1 for treatment FIN and 0 otherwise; NEU is constructed analogously. PROF is a dummy variable taking the value 1 for financial professionals subjects and 0 otherwise. Clustered standard errors at the subject-level are in parentheses. ** $p < 0.05$, *** $p < 0.01$ (double-sided tests).

	Proportion of honest reports					
	before.world pool			Prolific pool		
	(1)	(2)	(3)	(4)	(5)	(6)
NEU	0.091** (0.043)	0.061 (0.051)	0.060 (0.053)	0.118** (0.046)	0.061 (0.051)	0.068 (0.055)
FIN	0.125*** (0.041)	0.028 (0.043)	0.006 (0.047)	0.081 (0.042)	0.028 (0.043)	0.027 (0.048)
PROF	0.195*** (0.037)	0.082 (0.068)	0.156** (0.072)	0.313*** (0.040)	0.202*** (0.074)	0.229*** (0.073)
NEU × PROF		0.083 (0.091)	0.063 (0.095)		0.173 (0.107)	0.121 (0.105)
FIN × PROF		0.248*** (0.090)	0.250*** (0.092)		0.145 (0.094)	0.132 (0.091)
Constant	0.251*** (0.031)	0.295*** (0.032)	0.418*** (0.144)	0.258*** (0.031)	0.295*** (0.032)	0.271 (0.162)
Controls	No	No	Yes	No	No	Yes
Observations	281	281	281	274	274	274
Adjusted R ²	0.122	0.144	0.170	0.219	0.224	0.286

Table B3: Ordered logit regression on the proportion of honest reports for financial professionals and students. This table shows the estimated odds ratios from ordered logit regressions on the subject-level with the proportion of honest reports as the dependent variable. *FIN* is a dummy variable taking the value 1 for treatment *FIN* and 0 otherwise; *NEU* is constructed analogously. *PROF* is a dummy variable taking the value 1 for financial professionals subjects and 0 otherwise. Standard errors are in parentheses. $**p < 0.05$, $***p < 0.01$ (double-sided tests).

	Proportion of honest reports		
	(1)	(2)	(3)
<i>NEU</i>	1.821*** (0.234)	1.257*** (0.337)	1.327*** (0.361)
<i>FIN</i>	2.199*** (0.226)	1.198*** (0.325)	1.149*** (0.344)
<i>PROF</i>	3.535*** (0.190)	1.804*** (0.336)	2.793*** (0.366)
<i>NEU</i> × <i>PROF</i>		2.098*** (0.467)	1.839*** (0.489)
<i>FIN</i> × <i>PROF</i>		3.197*** (0.451)	3.068*** (0.470)
Controls	No	No	Yes
Observations	389	389	389

Table B4: **Linear estimation of the probability of an honest report for financial professionals and students.** This table shows the estimated coefficients from linear probability models using ordinary least squares regressions. FIN is a dummy variable taking the value 1 for treatment FIN and 0 otherwise; NEU is constructed analogously. PROF is a dummy variable taking the value 1 for financial professionals subjects and 0 otherwise. Clustered standard errors at the subject-level are in parentheses. ** $p < 0.05$, *** $p < 0.01$ (double-sided tests).

	Prob(Honest report)		
	(1)	(2)	(3)
NEU	0.119*** (0.040)	0.061 (0.050)	0.071 (0.054)
FIN	0.145*** (0.038)	0.028 (0.043)	0.024 (0.046)
PROF	0.247*** (0.030)	0.135** (0.055)	0.212*** (0.057)
NEU × PROF		0.109 (0.078)	0.064 (0.078)
FIN × PROF		0.205*** (0.072)	0.176** (0.072)
Economic costs of honesty	-0.152*** (0.007)	-0.152*** (0.007)	-0.152*** (0.007)
Constant	0.540*** (0.037)	0.599*** (0.037)	0.638*** (0.135)
Controls	No	No	Yes
Observations	1,945	1,945	1,945
Adjusted R ²	0.264	0.270	0.310

Table B5: **Logistic regression on the probability of an honest report for financial professionals and students.** This table shows the estimated odds ratios from logistic regression models on the decision-level with the probability of an honest report as the dependent variable using maximum likelihood estimation. FIN is a dummy variable taking the value 1 for treatment FIN and 0 otherwise; NEU is constructed analogously. PROF is a dummy variable taking the value 1 for financial professionals subjects and 0 otherwise. Standard errors are clustered at the subject-level. ** $p < 0.05$, *** $p < 0.01$ (double-sided tests).

	Honest report		
	(1)	(2)	(3)
NEU	1.922*** (0.221)	1.417*** (0.284)	1.493*** (0.323)
FIN	2.210*** (0.211)	1.179*** (0.250)	1.148*** (0.282)
PROF	3.728*** (0.168)	2.106*** (0.297)	3.562*** (0.337)
NEU × PROF		1.716*** (0.428)	1.406*** (0.456)
FIN × PROF		2.899*** (0.403)	2.682*** (0.428)
Economic costs of honesty	0.461*** (0.045)	0.457*** (0.046)	0.431*** (0.049)
Constant	1.120*** (0.186)	1.573*** (0.201)	2.126*** (0.789)
Controls	No	No	Yes
Observations	1,945	1,945	1,945
Log Likelihood	-1,054.294	-1,046.311	-982.448
Akaike Inf. Crit.	2,118.587	2,106.622	2,002.895

Table B6: **Linear estimation of the probability of an honest report for financial professionals across different treatments.** This table shows the estimated coefficients from linear probability models using ordinary least squares regressions. FIN is a dummy variable taking the value 1 for treatment FIN and 0 otherwise; NEU, FIN_{HA}^{ONE} , FIN_{HA}^{MANY} , and FIN_{SEV}^{ONE} are constructed analogously. Clustered standard errors at the subject-level are in parentheses. ** $p < 0.05$, *** $p < 0.01$ (double-sided tests).

	Prob(Honest report)	
	(1)	(2)
NEU	0.170*** (0.060)	0.134** (0.057)
FIN	0.233*** (0.058)	0.201*** (0.055)
FIN_{HA}^{ONE}	0.273*** (0.061)	0.192*** (0.062)
FIN_{HA}^{MANY}	0.200*** (0.067)	0.132** (0.067)
FIN_{SEV}^{ONE}	0.233*** (0.067)	0.198*** (0.066)
Economic costs of honesty	-0.114*** (0.007)	-0.114*** (0.007)
Constant	0.658*** (0.047)	0.514*** (0.158)
Controls	No	Yes
Observations	2,075	2,075
Adjusted R ²	0.139	0.191

Table B7: **Logistic regression on the probability of an honest report for financial professionals across different treatments.** This table shows the estimated odds ratios from logistic regression models using maximum likelihood estimation. FIN is a dummy variable taking the value 1 for treatment FIN and 0 otherwise; NEU, FIN_{HA}^{ONE} , FIN_{HA}^{MANY} , and FIN_{SEV}^{ONE} are constructed analogously. Clustered standard errors at the subject-level are in parentheses. ** $p < 0.05$, *** $p < 0.01$ (double-sided tests).

	Honest report	
	(1)	(2)
NEU	2.198*** (0.282)	1.866*** (0.298)
FIN	2.979*** (0.278)	2.631*** (0.285)
FIN_{HA}^{ONE}	3.672*** (0.302)	2.471*** (0.327)
FIN_{HA}^{MANY}	2.536*** (0.317)	1.809*** (0.342)
FIN_{SEV}^{ONE}	2.984*** (0.328)	2.783*** (0.355)
Economic costs of honesty	0.581*** (0.035)	0.554*** (0.039)
Constant	2.138*** (0.212)	0.398 (0.896)
Controls	No	Yes
Observations	2,075	2,075
Log Likelihood	-1,223.543	-1,140.210
Akaike Inf. Crit.	2,461.087	2,318.419

Table B8: **Decision situation-level ordinary least squares estimation of the percentage of honest reports.** This table shows estimates from ordinary least squares regressions on the percentage of honest reports from the main experiment (dependent variable) as a function of the expected percentage of honest reports estimated by subjects in the norm-elicitation experiment at the decision situation-level; that is, there is one observation for each of the five possible decision situations in each of the three treatments. $**p < 0.05$, $***p < 0.01$ (double-sided tests).

	<i>Dependent variable:</i>		
	Percentage of dishonest reports (observed in the main experiment)		
	PROF	STUD ^{PROF}	STUD
	(1)	(2)	(3)
Expected percentage of dishonest reports (elicited in the norm-elicitation experiment)	1.346*** (0.144)	1.434*** (0.415)	1.755*** (0.337)
Constant	-0.011 (0.053)	-0.315 (0.222)	-0.426** (0.169)
Observations	15	15	15
Adjusted R ²	0.861	0.438	0.651

Table B9: **Subject demographics.** This table shows demographic information of financial professionals from both subject pools (before.world and Prolific) and student subjects for both the main experiment and the additional norm-elicitation experiment.

PROF						
Variable	Main experiment				Norm-elicitation exp.	
	before.world		Prolific		before.world	
	Mean	(s.d.)	Mean	(s.d.)	Mean	(s.d.)
Age	38.400	(7.809)	36.378	(9.482)	41.578	(8.214)
Female (proportion)	0.087	(0.283)	0.512	(0.507)	0.067	(0.252)
Risk attitude	4.713	(1.241)	3.930	(1.444)	4.622	(1.386)
Investment	0.948	(0.223)	0.592	(0.492)	0.956	(0.208)
Highest level of education (proportion):						
Compulsory school	0.009		0.010		0.000	
Apprenticeship	0.000		0.017		0.000	
Technical college	0.017		0.077		0.022	
High school	0.096		0.150		0.022	
University	0.870		0.737		0.933	
Prefer not to say	0.009		0.010		0.022	
Job function (proportion):						
Chief-Level Executive	0.026		0.017		0.026	
Consultant	0.104		0.090		0.035	
Financial Advisor	0.157		0.137		0.052	
Fund Manager	0.061		0.007		0.017	
Investment Management	0.087		0.023		0.070	
Portfolio Manager	0.191		0.027		0.061	
Research Analyst	0.130		0.057		0.009	
Trader	0.096		0.023		0.026	
Other	0.148		0.620		0.096	
	N = 115		N = 300		N = 45	

STUD						
Variable	Main experiment		Norm-elicitation experiment			
	STUD		STUD assessing STUD		STUD assessing PROF (STUD ^{PROF})	
	Mean	(s.d.)	Mean	(s.d.)	Mean	(s.d.)
Age	23.577	(4.649)	23.171	(2.919)	23.426	(7.097)
Female (proportion)	0.577	(0.496)	0.571	(0.527)	0.603	(0.493)
Risk attitude	4.080	(1.401)	4.386	(1.333)	4.059	(1.495)
Investment	0.264	(0.442)	0.314	(0.468)	0.250	(0.436)
Highest level of education (proportion):						
Compulsory school	0.006		0.014			
Apprenticeship	0.000		0.014			
Technical college	0.024		0.029			
High school	0.518		0.429			
University	0.440		0.486			
Prefer not to say	0.012		0.029			
	N = 166		N = 70		N = 68	

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Christoph Huber, Jürgen Huber

Bad bankers no more? Truth-telling and (dis)honesty in the finance industry

Abstract

Worries about unethical behavior are a recurring issue in the finance industry, which has inspired a number of recent studies. We contribute to this ongoing discussion by investigating preferences for truthfulness within the finance industry in a controlled experiment with 415 financial professionals (and 270 students as a control group). Participants have to report one of two numbers, of which one is true, the other false, and where truth-telling is costly. In three main treatments we vary the situational context of subjects' decisions (abstract, neutral, finance context) by applying differently framed instructions. We find that contexts matter for financial professionals: they act more honestly in a financial context, while for a control group we find no such differences. Further variations on the financial decision situation do not worsen financial professionals' honesty. As driver of the observed behavior we find reputational concerns to play a major role in financial professionals' decisions.

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