A tissue of lies

A social psychologist looks at why people lie and cheat and what it means for business

Contract disputes seldom produce courtroom drama. But the battle between BSkyB, a broadcaster, and Electronic Data Services (EDS), a software firm, was an exception. Mark Howard, Sky's barrister, cross-examined Joe Galloway, an EDS executive, about his MBA from Concordia College in the US Virgin Islands. Mr Galloway recalled his student days in loving detail, from the college buildings to the hours he had spent sweating over his books. A few days later Mr Howard presented the court with an MBA certificate that his pet schnauzer had earned from the very same diploma mill. The clever schnauzer had even earned a higher mark than the EDS executive.

People have always lied and cheated. And businesspeople may have lied and cheated more than most: in a survey of American graduate students, 56% of those pursuing an MBA admitted to having cheated in the previous year, compared with 47% of other students. Cynics will not be surprised that people in ties sometimes tell lies—remember Enron? Plenty of executives have overstated their educational qualifications: Scott Thompson recently lost his job as boss of Yahoo! for it.

Lies (and the lying liars who tell them)

However, the punishment for dishonesty is growing harsher. America's 2002 Sarbanes-Oxley law makes chief executives and chief financial officers criminally liable for misstating financial results. The number of groups that seek to hold companies liable for their misdemeanours, from shareholder activists to NGOs, is multiplying. The internet makes a permanent record of people's peccadilloes (try ungoogling yourself). And more and more people distrust business thanks to scandals and broken promises. Even small acts of dishonesty can cost a firm dearly: the judge cited Mr Gallagher's "astounding ability to be dishonest"; BSkyB was later awarded $320m in damages.

Yet businesspeople have given little serious thought to managing dishonesty. Managers tend to make two hoary contradictory assumptions. First, that there is a sharp line between good and bad apples, and that a manager's job is to toss out the bad. Second, that everybody cheats if they have the right incentives and the wrong oversight, so managers must ensure that punishment is sure and swift.

A new book by Dan Ariely, “The (Honest) Truth about Dishonesty”, may reinvigorate the discussion. Mr Ariely is a social psychologist who has spent years studying cheating. He also teaches at Duke University’s Fuqua School of Business. He has no time for the usual, lazy assumptions. He contends that the vast majority of people are prone to cheating. He also thinks they are more willing to cheat on other people’s behalf than their own. People routinely struggle with two opposing emotions. They view themselves as honourable. But they also want to enjoy the benefits of a little cheating, especially if it reinforces their belief that they are a bit more intelligent or popular than they really are. They reconcile these two emotions by fudging—adding a few points to a self-administered IQ test, for example, or forgetting to put a few coins in an honesty box.

The amount of fudging that goes on depends on the circumstances. People are more likely to lie or cheat if others are lying or cheating, or if a member of another social group (such as a student wearing a sweatshirt from a rival university) visibly flouts the rules. They are more likely to lie and cheat if they are in a foreign country rather than at home. Or if they are using digital rather than real money. Or even if they are knowingly wearing fake rather than real Gucci sunglasses. They are more likely to lie and cheat if they have been stiffed by the victim of their misbehaviour—companies that keep customers in voicemail hell are frequent victims. And people are more likely to break their own rules if they have spent the day resisting temptation: dieters often slip after a day of self-denial, for example.

Mr Ariely observes that good sales reps understand a lot of this without attending his lectures. Customers like to think well of themselves; but they also like small bribes. The key is to convince them that an inducement is not really a bribe. So drug reps make doctors feel beholden by inviting them to give lectures in golf resorts or by offering to fund their terribly important research. Doctors naturally think their later decisions are taken entirely with their patients’ best interests in mind; in fact they may be kidding themselves and cheating their patients. Sales reps also take receptionists out for fancy dinners, since these faithful gatekeepers decide which calls get put through to the boss.

What can be done about dishonesty? Harsh punishments are ineffective, since the cheat must first be caught. The trick is to nudge people to police themselves, by making it harder for them to rationalise their sins. For example, Mr Ariely finds that people are less likely to cheat if they read the Ten Commandments before doing a test, or if they have to sign a declaration of honesty before submitting their tax return. Another technique is to encourage customers to police suppliers: eBay, an online marketplace, hugely reduced cheating by getting buyers to rank sellers.

Let’s hope these wheezes work. But human beings have a remarkable talent for getting around rules—including the rules they try to impose upon themselves. And new technologies introduce new opportunities for cheating; just look at the e-mail that slipped through your spam filter. Moreover, the line between succeeding by cheating and succeeding by serving customers is not always clear: the industrial giants of the 19th century were not called “robber barons” for nothing. Great entrepreneurs succeed by breaking the old rules and pursuing crazy visions. Great salesmen invariably stretch the truth. Mr Ariely and his students will have no shortage of material for follow-up books.

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