

# FRAUD TALK – EPISODE 93

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## The Relativity of Ethics

John Gill, J.D., CFE, ACFE VP-Education, sits down with Art Markman, a professor of psychology and marketing at the University of Texas, to discuss how and where we all draw our ethical lines.

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### *Transcript*

**John Gill:** Welcome to this edition of *Fraud Talk*. I'm John Gill, vice president of education for the ACFE, and today my guest is Art Markman. He is a professor at the University of Texas at Austin in psychology and marketing. He's also the founding director of the Human Dimensions of Organizations Program at UT. He has a lot of degrees. He's got a B.S. degree from Brown and Ph.D. from the University of Illinois. He's taught at Northwestern and Columbia. I know from talking to him previously, the University of Texas is proud to have him as an instructor because he's a good one.

The reason I found out about Art, I had seen a couple of different articles that he had written on employee fraud and just bad behavior in general. That's one of my favorite subjects to talk about. We met a few weeks ago and just had a great discussion, so I invited him to come down to the headquarters here in beautiful downtown Austin and talk about fraud and bad behavior.

So, Art, welcome.

**Art Markman:** John. Thanks. It's great to be here.

**John:** You were in a lot of articles. One I enjoyed was called "The Psychology Behind Why People Steal Their Coworkers Stuff." I know at the ACFE sometimes we focus on the big frauds and people...CEOs, CFOs stealing millions of dollars. I enjoyed this because it really went down to a more basic level about. Why does a seemingly honest, hard-working, gets-along-with-their-coworkers [employee], steal somebody's lunch out of the refrigerator?

**Art:** It's so funny, too, because I think actually, even when you look at the big stuff, there are evil people in the world, but most of the time, you're dealing with people who I think have a self-image of being a perfectly upstanding citizen who may go down a particular slippery slope or convince themselves that they can do something. I think there are some parallels actually, between what you see in the really big cases and what you see just in the run-of-the-mill, somebody grabbing something that isn't theirs out of the community fridge. Part of it, there are several different intersecting factors, one of which is just the availability.

One of the things we know about cheating behavior, in general, is that if you give people an easy opportunity to cheat at something, they will do it when there's very little chance that they're likely to get caught doing it, and where they think the consequences are fairly low. Whether it's snagging a snack or a

sandwich out of the refrigerator, or just think of something really mundane. It's 10 minutes to six o'clock. You park in a parking spot that requires you to pay for it. You look around and you think there's very little likelihood that someone's going to come by and write you a ticket in the next 10 minutes. So, you know, "I'm just going to park."

Well, technically speaking, you have done something that is in violation of the ordinance that governs parking in that area. Yet, I think most people would think it was a calculated risk, and they wouldn't really be casting it even in moral terms. I don't think for a moment someone would think of that as having an impact on their goodness as a human being. I think that when we think of things that are relatively victimless kinds of crimes, we can uphold our self-image that way. I think if you don't picture the face of the person whose lunch you just took, you don't even necessarily think about how this is affecting someone else.

It's easy to do. There's a very low likelihood anyone's going to catch you. There's nobody watching. It doesn't feel like you're doing anybody any significant harm. All of these factors come together in a perfect storm that supports this kind of low-level bad behavior.

**John:** Well, I can see that. There might be an apple that's been in there — and I've had this before — it's like, "This apple's been in here for three days, and it's going to go bad if somebody doesn't eat it."

**Art:** Fair game, now.

**John:** You start thinking, you're doing the apple a favor. "Well, if they don't want it and I'm hungry, why can't I just go ahead and take that apple?"

**Art:** Right. It just doesn't feel like a problem. Of course, the amount of effort that might be required to act ethically in that situation, putting a sign out saying, "Is this anybody's apple? Would somebody mind if I took it?" It feels like a tremendous amount of energy to go through for something that doesn't seem that important. It's interesting because, on the one hand, it's easy to see how people can slide into doing that. Again, people draw their ethical lines in different places. I don't think I'm the sort of person who would take lunch, but I've probably got a couple of pens at home that once belonged to an institution that I work for. I think that there are certainly places where people may slip across a line without necessarily thinking too deeply about it.

I think that, particularly with some of these things like stealing a lunch, of course, it has this other impact, which is it influences the way your coworkers start looking at each other. At the point where you are either the victim, your sandwich is gone, or you hear about it, one of your colleagues comes to you and says, "Somebody stole my sandwich." Now, you're looking around the office and thinking to yourself, "Somebody here is a thief."

What that does, there's an interesting concept in psychology now having to do with psychological distance that I really like. There's a theory that Nira Liberman and Yaacov Trope put forth. It's called construal-level theory from the word "construe." The idea behind it is that the more distant you are from something in time, in space or in social distance, the more abstractly you think about that.

Here, we're sitting in lovely downtown Austin, Texas. New Yorkers are abstract for us at the moment. We can think of New Yorkers as being this homogenous group of some kind, or Californians. If you go into New York City, then you recognize the diversity of people, the specificity of the different kinds of people who live in a city like that. That's physical distance.

Distance in time. Many of your listeners have probably had the experience of signing up to go to a great conference six months in advance that they were really excited about going to, and then the day before they're scheduled to go, they're thinking to themselves, "Why did I agree to do this? I have so much work to do." It's not that you didn't know how busy you were going to be six months in the future. It's that when you're planning something six months in advance, you're not even thinking about all of that specificity. When it comes close, all you can think of is how much you're giving up in order to go to this conference. The same thing works with social distance. We tend to think of people who are way above us or below us in socioeconomic status a little bit more abstractly. We tend to think about people who are very different from us culturally as being more abstract.

The reason that this matters is, in the moment that you are standing there staring at that lunch in the refrigerator, you're not thinking about Joe in accounting, whose lunch you're about to eat. You're just thinking there's some random abstract employee in your firm whose lunch you're about to take. I think another piece to this is, if you work in an office with three other people, there's a low probability you're taking anybody's lunch because they're pretty much going to know who did it, and you can envision exactly whose lunch it is. If you work in a division with 50, or 60, or 80 other people, now, not only do you have a little bit more cover, in terms of being able to get away with the crime, but you can treat the person whose lunch it is really abstractly. You're not thinking about a specific person. There's just some generic person who's going to have to do without lunch. I think all of that makes things a little bit easier.

**John:** Well, I would think, especially in a corporate environment, if you're working for a \$50 million company and you're stealing even \$10,000, it's very easy to justify that because, "Well, it's a giant company. They have all this money. It's just a drop in the bucket." So it makes it that much easier.

Another thing you had mentioned in the article I thought was interesting is the idea that very few of us think about the possible consequences long-term. When I was reading it just recently, I was thinking about the Lori Loughlin and Felicity Huffman. It just popped in my head, and I'm thinking, "There is no way that, take Felicity Huffman, if she had thought, 'Well, here's what could happen in the end. I might get my daughter into college, but I'm going to serve time in jail and be vilified in the press and have my picture all over TMZ.'"

**Art:** "And have my *daughter* angry at me because now everyone's looking at her as though she didn't deserve to get the education she got."

**John:** I interviewed many people who went to jail for fraud, and not one of them ever thought about, "Well, this could lead [to] me sitting in a jail cell for five years." That's something in training people in the workplace... I don't know how to do that. I remember, when I was in high school, and you know, "Don't drink and drive!" And they show you all these films of people who had wrecks. I don't know that that necessarily... I think it did help, but I don't know if that's the way to go. How can we do a better job of impressing upon people: "If you steal, there are consequences to that."

**Art:** I think there's actually three components that come into play here. One of which is, how do we get people to think specifically about those consequences for the future? Second of them is, how can we help people to grapple with the situation that they're going to be in in that moment because there is some kind of temptation that's associated with the action that you're going to take? Then the third is, how do you get people to actually plan for what they're going to do in those kinds of situations in which there is a temptation? I think all of those matters.

Part of the problem is, I think that plenty of people in the moment just aren't thinking about what the consequence is going to be, and I think this construal-level theory plays a role in that because the future is distant, and it's abstract, and you don't necessarily think... Think about people who are smokers. Lung cancer is an abstraction, and so you're not thinking about the fact that this specific action you're going to take right now could have that kind of consequence. I do think it's important for people to put themselves mentally nearer to that future state, and it's not just fraud situations where this comes out. There's a lot of related research and things like, "How do you get people to save for retirement?" Where if you're 45 years old, your 75-year-old self can fend for itself because it's 30 years off into the future. So how do you bring yourself socially closer to your 75-year-old self so that you can envision how much you're going to want to eat at that point or travel or whatever it is that you need to save your money for?

I think that there's lots of situations where there are things we'd like to do in the present that seem perfectly reasonable or at least perfectly safe to do that have long-term consequences that we don't think about. I do think it's important to help people to get socially nearer to that future person. That's one issue.

I also think that we have to grapple with the actual complexity of the kinds of situations that lead people to do the wrong thing. It's interesting. My grandfather was a pharmacist, and he would give me these anti-drug lectures. This is back in the 70s before it was really popular to do that sort of thing. He took a very different tact than what Nancy Reagan ultimately adopted years later of the "Just say no." He did this interesting thing, when he told me this whole story about how when he was about 21, he had to have nasal surgery, and back when they did that, they used to use cocaine as an anesthetic. They used that partly to numb the pain, and partly because it's a vasodilator — a constrictor rather — and so it would actually keep the area from bleeding too much. He said they did this surgery outpatient, and then they let him go onto the street. He said he was high as a kite walking down the street. He said, "Man, cocaine is really great." He said, "That's why people do it." He said, "But here's all the reasons why it's dangerous. Here's why you have to actually be careful and not actually engage with that."

I thought, "Well, that's interesting." Because he wasn't saying this is a dumb drug to do, there's no reason to do it. No, there's a *really* good reason to do. If you do it, it's going to feel great, but here are all the dangers and why you shouldn't do it anyhow. It's important to understand the real temptation you're going to be under to do the wrong thing. You mentioned drinking and driving. Everyone will say, "I would never do that," and yet, manifestly, people are drinking and driving. Some of it has to do with you're in a somewhat impaired mental state, so you're not necessarily thinking as clearly. Often people underestimate the likelihood of getting in a wreck when they're drunk, but I think there's a bunch of other issues as well, like people starting to worry about, "Well, if I take a lift home, how am I going to get my car tomorrow?"

It's really useful for people to actually project themselves into that situation before it happens and plan for it. That might be if I'm going to go somewhere and drink, I'm going to take a lift to begin with rather than driving my car, or here's how I'm going to make the plan to pick my car up so that I've already thought this through so that I know what to do in that situation, because in the moment, you're not necessarily going to be thinking very clearly about it.

**John:** Well, that's a good point and also goes back to your psychological distance. I'm sitting in a classroom and somebody is showing a film about people I don't know, I have no connection with, and I'm thinking, "Well, I don't know those people, and so I got no connection with him at all." Then I don't think it has that much of an impact, but I do remember early, I had just gotten out of college, was working at a company and there was a bar across the street. I was not paid a lot. They had a happy hour and a free buffet, so we

go there and we would drink and we would eat on the free buffet and go home, and some of us were probably a little impaired and should not have done that.

Well, it wasn't after one of these, but one of our coworkers over the weekend had been drinking too much, and he hit a telephone pole and killed him, and we went to the funeral. That had an impact because now there's somebody I know that I used to drink with, and then we would all leave and go drive, and he was killed. That got my attention when nothing else would. Maybe if you're doing training within an organization, it's to get them to stop and think about, look, it affects all of us if you steal, and here are the consequences, and use examples from that organization about the bad things that happen when people didn't stop and think.

**Art:** Yeah, and I think it's important when you do that kind of training, to get people to really feel the tension that they're going to feel when they're actually in this situation. They have to actually be torn by it. When you treat it abstractly or like, "Well, I would certainly never do that! I would certainly never steal from the company. I would certainly never commit sexual misconduct. I would certainly never drink and drive." Because we know the right answers to these things, and yet we know that people engage in this activity. What's important is for people to be put in that situation in which they really feel the temptation between the two options, and then create strategies that help them to do the right thing in that situation.

Partly so that they practice that, partly so that they are reminded of the right thing to do when they feel that temptation. Because part of the way that we act is that we act on the basis of our memories of what we're supposed to do in situations. You need to be reminded of the right outcome, and the best way to be reminded is to put yourself in that situation so that when it occurs again, you know what it is you're supposed to do. A lot of training just tells us the abstract rules, and maybe gives us a scenario, although even many of those scenarios are not that complicated.

What we really need to do is not just to tell some vignette story, but really put people in a situation in which they are in that scenario. You're there and there's your car and you've been drinking. There's this person, and you find them attractive, but they're a coworker. You have to feel that tension so that you can then say, but when I feel this, this is actually the right action to take, and so I'm being reminded that even though there's a part of me that wants to do the thing that's the wrong thing, I know I have to do the right thing, and I have a strategy. You can actually use that psychological distance to help you in that situation.

So far, we've been thinking about situations in which that distance is a problem, but actually, you can create a sense of distance, and that will lessen some of the temptation. Part of what you can do is, when you're feeling the temptation to speak inappropriately to somebody, to steal a lunch or something like that, you can try and say, "Well, this isn't a beautiful lunch that I want to eat, it's just a food." Treated abstractly, now it just doesn't seem that desirable. Now you can go off and find some other solution to your problem. Distance yourself from that, and do that in a way that may help to dampen the motivation that's driving you in the wrong direction.

I think that part of what's important is for all of us to recognize — and this is actually why I like these small examples like stealing a lunch — is because most of us think, "Well, I would never steal \$10,000 from a company." But if we back out far enough, we can find something someone's willing to do, whether it's taking a pen or having one drink too many and still getting in a car or stealing 10 minutes of parking from the city.

When you understand what factors drive you to do those things, now you can begin to say, "Well, but if I didn't want to do those things, what are some of the strategies that I would engage in to make sure I didn't do those?" Then keep applying those same kinds of strategies to the bigger and bigger elements that might actually cause real problems within an organization.

**John:** It's a great idea, and I think a lot of, or some organizations suffer from, "Well, we need an anti-fraud training." And they put everybody in a room and they say, "Fraud is bad. Don't do it."

**Art:** Just say no.

**John:** Just say no. Everybody has a different definition of fraud. I like the idea if you're going to do this, then divide up into small groups and give people an actual scenario. If you're an accountant, and they come in and they say, "Look, we need to add in these sales. I don't have any backup, you're just going to have to take my word on it." It's the end of the quarter, and you're thinking, "This is not correct procedure." These may be fake sales, they're trying to pump up their numbers, so what do you do? It's like, well, let's walk through the choices.

Well, the easiest thing may be to just get them off your back and say you'll do anything. Well, if anything goes wrong, you can just blame them, but that's not how this works. If you're an accountant and you're putting in fake numbers, they're going to come to you and now you're partly responsible and what can happen with your CPA? You could lose your license and you can get fired. You may go to jail. If you can walk through these scenarios with people and give them where they are actually faced with the situation, the theory is, that makes it more real to them and puts them in a situation where they have to make the correct choice.

**Art:** It also helps people to recognize when they're lacking the knowledge about what they're actually supposed to do. Somebody comes to you and says, "I want you to add these sales in." These are people who are, perhaps your supervisors or people higher up in the food chain who are asking you to do this. Well, okay, so you have misgivings about it, you'd actually like to be in a situation where you don't do it. Who do you go to? What is the procedure?

Do you actually know not just generally speaking, but specifically, who do you call in that situation? If you don't know, then it's going to be hard for you to do the right thing. Even if you do know, do you know what the procedure is going to be after that? Have you put yourself on the hook for a protracted investigation in which now you're damaging your own potential future career by being caught up in some significant investigation, which people are making these kinds of cost-benefit calculations.

It's funny, I think you and I may have talked about this a long time ago in one of our conversations, but at the University of Texas, we've had some unfortunate incidents where two students have actually been killed on campus in the last several years. One of them was killed by a disturbed student who was carrying a knife around campus for about a half-hour before he ultimately stabbed someone.

Many students on campus saw this student carrying a knife, and nobody called the police. One of the questions in the aftermath was, "Well, why didn't anybody call 911 or call emergency services just to report there's a student walking around with a knife?" I think that a big part of the problem was, I think students had a misconception that if they call emergency services, that they're going to have to stick around, and they're going to have to be a part of the investigation, and that now they're involved in something that they weren't involved in, when in fact it turns out, you can call 911, make a report and then walk away and let the authorities deal with it after that. You're certainly welcome to stay and provide

information, but you're not obliging yourself to anything other than having reported something. I think that if more people understood what procedure they're signing themselves up for by making a report, it might change the likelihood of engaging in that kind of behavior. We often assume a lot more knowledge on people's part than they actually have. We have to really walk people through a specific scenario, in part to figure out what do they actually think is going on in this situation?

**John:** I think that's an excellent idea. When you're doing the training, you really have to stop and put yourself in the employees' position. You're right. You can't assume that, "Well, in the employee handbook, it clearly says, 'Here's the procedure to follow when you suspect some kind of wrongdoing.'" Do people really understand what that means? Do they even understand what is wrongdoing?

We're talking about somebody stealing a lunch out of the refrigerator, or are we talking about somebody embezzling \$100,000, and there's a wide span of all kinds of things in between. Things like close association with vendors is a giant red flag that we see in a lot of cases, and same thing after it happens.

"Well, didn't you think it was odd that the purchasing manager and the salesperson were going to lunch together quite frequently, and we're taking vacations together?"

Everyone's like, "Well, yeah, I thought that was unusual, but I didn't know what to do about it or I thought, well, it's none of my business." Inertia comes into play. The easiest thing to do is nothing.

**Art:** Right, and particularly if you step into a pre-existing situation, so you walk in and there's already this relationship between someone in purchasing and a vendor. Now you're looking at this and thinking, "Well, I guess that's the way things are done here, without coming in and saying, this seems a little odd. Maybe it's worth pointing this out." Because actually fresh eyes can often alert people to things that they weren't really paying attention to.

It's also important to let new employees know — it's actually okay to report something. And it's hard when you want to make a good first impression at a place, of course. We teach kids from early on: you don't want to be a tattletale, you don't want to be a squealer. Movies and popular culture are not... We call people who call other people out a "rat." We don't say... Even "whistleblower" isn't a heroic term.

**John:** Not a term of endearment!

**Art:** Well, not only has it come to have a certain amount of stigma attached to it, but even in the absence of the stigma, a whistleblower isn't a heroic figure. It isn't, say, this isn't the "day saver," the "lifesaver." You go to the swimming pool, and it's a "lifeguard" there. That's a heroic term. Whistleblower, not so much. We have to overcome a tremendous cultural pressure against saying something. There's a lot of these factors that come into play.

That's why really experiencing that tension is so important, because you need people to go, "Gosh, in that situation, I would..." So here, you say, "Well, you're a new employee. If you see something, you've got to say something." You can't just say that because I'd be like, "Oh yes, of course." You have to then say to them, "I know you're going to feel like you're trying to make a good first impression on everybody, and that the last thing you want to do is to be seen as the Dudley Do-Right, the Goody Two-shoes, who's come in and is making an accusation. But here's why it's important. Here's why we value that. Here's why we reward that kind of behavior."

If you don't address that head-on, then you're not really taking seriously the competing goals that people have that are the root of so many of the cases of fraud, small and large, that you see.

**John:** Now, those are some good points. Just to wrap up, we're out of time... I'm a huge believer in training. If you want, you've got to get the employees on your side and for several reasons. One is we just talked about, whistleblowing, is they see things. We don't want them to just sit there and think, "Well, I should just keep my mouth shut. It's not my business." You've got to train them. Here is what you're supposed to do in these situations.

The other is they may be sitting there also thinking, "Well, I could steal this, or get away with this, and no one would find out." And you've got to impress upon them, like, "There are consequences to this." I really like the idea of how important it is to put people into real scenarios and give them a scenario and have them think through this.

I think that's at least some way to create that real tension that they might feel, and it's got to be real-world things, because you're right, if you say, well, would you steal \$100,000? People would go no, like, well, but if a coworker came to you and said can you change these numbers? What would you do? That's a lot more. "I don't know what I would do. I'd think through this. What should I do if I'm faced with this situation?"

"If I think it's wrong, how do I report it? If I did it, what would be the possible consequences?"

Maybe the idea is that next time you're faced with something in real life, that scenario would have helped them stop and, "Well, here's what we did before. Let me do this again, think through this, and make the right decision."

Well, Art, thank you very much for being with us today. Hopefully, we can do this again sometime.

**Art:** John, that'd be great. Thanks so much.

**John:** Thank you all for listening. We'll look for you on our next edition of *Fraud Talk*.