

2016

## Experimental Economics and Normative Business Ethics

Philipp Schreck

---

### Bluebook Citation

Philipp Schreck, *Experimental Economics and Normative Business Ethics*, 12 U.St. Thomas L.J. 360 (2016).

This Article is brought to you for free and open access by UST Research Online and the University of St. Thomas Law Journal. For more information, please contact [lawjournal@stthomas.edu](mailto:lawjournal@stthomas.edu).

## ARTICLE

# EXPERIMENTAL ECONOMICS AND NORMATIVE BUSINESS ETHICS

PHILIPP SCHRECK\*

### I. BUSINESS ETHICS AND THE ROLE OF BEHAVIORAL RESEARCH

Corruption, child labor, lying, and cheating are all examples of immoral business behavior that are subject to scrutiny within the academic discipline of business ethics. Traditionally, this discipline has examined what companies *should* do, making it inherently *normative*.<sup>1</sup> Corresponding approaches have asked questions such as: How are certain practices within business to be evaluated? Who is morally responsible for certain business scandals? Which norms and values *should* individuals follow when facing ethical dilemmas in business? How *should* they behave?

Recently, however, a subdomain of ethics has gained momentum that asks questions of a fundamentally different kind: Which moral decisions *do* individuals *actually* take? How *do* they behave? Such questions are being asked within the field of *behavioral business ethics*.<sup>2</sup> Their proponents'

---

\* Philipp Schreck holds the Friede-Springer Endowed Chair of Business Ethics and Management Accounting at Martin Luther University Halle-Wittenburg in Germany. He earned his PhD at Ludwig Maximilian University Munich with a thesis on the *Business Case for Corporate Social Responsibility*. His research interests are in corporate responsibility, sustainability reporting, and behavioral accounting. His articles have appeared in such Journals as *Business & Society*, *Business Ethics Quarterly*, *Critical Perspectives on Accounting*, and the *Journal of Business Ethics*.

1. Compare Margaret M. Blair & Lynn A. Stout, *Team Production in Business Organizations: An Introduction*, 24 J. CORP. L. 743, 747–50 (1999) (discussing normative approaches applied to teams), with NORMAN E. BOWIE, *BUSINESS ETHICS: A KANTIAN PERSPECTIVE* (1999), and THOMAS DONALDSON & THOMAS W. DUNFEE, *TIES THAT BIND: A SOCIAL CONTRACTS APPROACH TO BUSINESS ETHICS* (1999) (discussing social contracts), and ALEJO JOSE G. SISON, *CORPORATE GOVERNANCE AND ETHICS: AN ARISTOTELIAN PERSPECTIVE* (2008) (discussing ethics within corporations), and Robert C. Solomon, *Business Ethics and Virtue*, in *A COMPANION TO BUSINESS ETHICS* 30, 30–37 (Robert E. Frederick ed., 2002). See generally *ETHICAL THEORY AND BUSINESS* (Tom L. Beauchamp, Norman E. Bowie & Denis G. Arnold eds., 8th ed. 2009).

2. See, e.g., DAVID DE CREMER & ANN E. TENBRUNSEL, *BEHAVIORAL BUSINESS ETHICS: SHAPING OUR EMERGING FIELD* (2012); Ann E. Tenbrunsel & Kristin Smith-Crowe, *Ethical Decision Making: What We've Been and Where We're Going*, in *THE ACADEMY OF MGMT. ANNALS*, 545, 546–93 (James P. Walsh & Arthur P. Brief eds., 2008); Linda K. Treviño, Gary R. Weaver & Scott J. Reynolds, *Behavioral Ethics in Organizations: A Review*, 32 J. OF MGMT. 951, 951–80 (2006); PATRICIA H. WERHANE, LAURA PINCUS HARTMAN, CRINA ARCHER, ELAINE E. ENGLE-

main goal is the description, rather than the evaluation, of behavior: “[W]e are concerned with describing and predicting what people think, perceive, and do; generally, we are not in the business of telling people what they should do.”<sup>3</sup>

Behavioral business ethics is an interdisciplinary field, which draws on findings from experimental research in mainly three (partly overlapping) areas:

- *experimental moral psychology*,<sup>4</sup> or *ethical decision making*;<sup>5</sup>
- *experimental economics* to the extent that it deals with moral issues; and
- *experimental moral philosophy*.<sup>6</sup>

Business ethics and experimental research thus share an interest in morals as an academic topic. But their proponents often explicitly stress their respective domain’s differences. As behavioral researcher Adam Galinsky put it: “Behavioral ethics takes us out of the idealized and stuffy world of philosophy and teaches us how people really act and why and when they deviate for their stated ethical norms.”<sup>7</sup>

Representatives of philosophical ethics, on the other hand, occasionally maintain a certain skepticism towards the field of behavioral business ethics. This reservation on the side of normative philosophy is closely related to a distinction between (positive) statements of “is” and (normative) statements of “ought.” This distinction has been argued to be the reason for a traditional division of labor between those disciplines primarily concerned with generating normative statements (“ought”), and those primarily concerned with generating positive statements (“is”):

One reason for philosophical skepticism about the relevance of empirical moral psychology is a conviction, which is usually traced to Western intellectual traditions flowing from the Enlightenment, of the deep metaphysical and epistemological significance of a distinction between facts and norms.<sup>8</sup>

---

HARDT & MICHAEL S. PRITCHARD, OBSTACLES TO ETHICAL DECISION-MAKING: MENTAL MODELS, MILGRAM AND THE PROBLEM OF OBEDIENCE (2013).

3. Danielle E. Warren & Kristin Smith-Crowe, *Deciding What’s Right: The Role of External Sanctions and Embarrassment in Shaping Moral Judgments in the Workplace*, 28 RES. ORGANIZATIONAL BEHAV. 81, 84 (2008).

4. See generally Kwame Anthony Appiah, *Experimental Moral Psychology*, 138 DAEDALUS 92, 92–102 (2009); see also ADVANCES IN EXPERIMENTAL MORAL PSYCHOLOGY (Hagop Sarkisian & Jennifer Cole Wright eds., 2014).

5. See Jana L. Craft, *A Review of the Empirical Ethical Decision-Making Literature: 2004–2011*, 117 J. BUS. ETHICS 221, 221–59 (2013); Tenbrunsel & Smith-Crowe, *supra* note 2.

6. Compare Mark Alfano & Don Loeb, *Experimental Moral Philosophy*, STANFORD ENCYCLOPEDIA OF PHILOSOPHY ARCHIVE (Mar. 19, 2014), <http://plato.stanford.edu/archives/sum2014/entries/experimental-moral/>, with JOSHUA ALEXANDER, EXPERIMENTAL PHILOSOPHY: AN INTRODUCTION 1–9 (2012) (indicating that this domain is generally considered a part of experimental philosophy).

7. DE CREMER & TENBRUNSEL, *supra* note 2.

8. KWAME ANTHONY APPIAH, EXPERIMENTS IN ETHICS 21 (2008).

Such skepticism reflects a more fundamental and general problem with a long-standing tradition. The normative discipline of ethics has always had strong reservations against the notion that the factual may play a role in the search for the counterfactual. This separation of positive and normative research is rooted in the desire to avoid a well-known error—the so-called “naturalistic fallacy.”<sup>9</sup>

To suppose that one can deduce an “ought” from an “is,” or, what amounts to the same thing, that one can deduce a normative ethical conclusion from empirical research, is to commit a logical mistake some dub the “naturalistic fallacy.”<sup>10</sup>

If it is true that some men *do* cheat on their wives, this does not imply that they *should* do that. If in some market economies, corruption and bribery *are* widespread, this does not mean they *should* be. And if in some developing countries it is common practice that ten-year-old children work in textile production sites fourteen hours a day, the presence of this situation does not justify its desirability.<sup>11</sup>

In light of this strict separation between the realms of positive and normative science, a yawning epistemological gap exists between normative business ethics on the one side, and (descriptive) behavioral business ethics on the other. This gap raises the question whether and to what degree normative business ethics has anything to learn from behavioral research. That is the question that this article will address, focusing on the particular example of experimental economics.<sup>12</sup> The main arguments will be developed in three steps. The first section will provide a short discussion of the main research aims in business ethics. The following section will characterize two distinct strategies through which experimental economists have sought to theoretically integrate the phenomenon of morality. The final section will analyze the contribution that these two strategies could offer to

---

9. Compare G. E. Moore, *The Subject-Matter of Ethics*, in INTRODUCTORY READINGS IN ETHICS 382, 387–88 (William K. Frankena & John T. Granrose eds., 1974), with Ralph Barton Perry, R. M. Hare, Carl Wellman, David Hume & P. H. Nowell-Smith, *Debate about Naturalism and Intuitionism*, in INTRODUCTORY READINGS IN ETHICS 394, 394–98 (William K. Frankena & John T. Granrose eds., 1974), and Kenneth E. Goodpaster, *Business Ethics, Ideology and the Naturalistic Fallacy*, 4 J. BUS. ETHICS 227, 227–32 (1985). See Thomas Donaldson, *When Integration Fails: The Logic of Prescription and Description in Business Ethics*, 4 BUS. ETHICS Q. 157, 160 (1994) (stating that one cannot deduce “ought” statements from pure “is” statements).

10. Thomas Donaldson & Thomas W. Dunfee, *Toward a Unified Conception of Business Ethics: Integrative Social Contracts Theory*, 19 ACAD. MGMT. REV. 252, 253 (1994), <http://www.jstor.org/stable/258705>.

11. See generally Donaldson, *supra* note 9; Philipp Schreck, Dominik van Aaken & Thomas Donaldson, *Positive Economics and the Normativistic Fallacy: Bridging the Two Sides of CSR*, 23 BUS. ETHICS Q. 297, 297–329 (2013) (discussing, in more detail, the relation between positive and normative statements in business ethics).

12. Although the argumentation is not formally restricted to a particular experimental research approach, I will focus on the special case of experimental economics for the sake of simplicity and clarity.

business ethics and its respective research aims. A short summary and outlook will conclude this article.

## II. BUSINESS ETHICS AND EXPERIMENTAL ECONOMICS

### A. *Justification, Explanation, and Implementation: The Epistemic Goals of Business Ethics*

Business ethics deals with moral problems in business. This occupation typically refers to behaviors in and of companies that are in conflict with society's perceptions of what is morally right and wrong. To analyze which role experimental economics may play for the purposes of business ethics, it is useful to distinguish different epistemic goals within this discipline.

The first is the *justification* of certain morals: that is, of moral values, principles, norms, etc. Justifications have always played an important role within business ethics debates because it requires well-justified normative arguments to defend ethical judgments such as bribery is illegitimate,<sup>13</sup> or human beings should never be treated "as a means merely,"<sup>14</sup> or "business has obligations to protect the natural environment."<sup>15</sup> Of course, business ethicists do not necessarily agree on one justification. Consider, for example, the ongoing discussion on the ethical evaluation of so-called sweatshops.<sup>16</sup> While some ethicists argue that sweatshops are a violation of the most basic human rights and thus ought to be condemned, others maintain that many workers freely choose to accept the typical sweatshop labor conditions and defend the moral legitimacy of sweatshops.

Regardless of where one stands in this debate, it illustrates that one purpose of business ethics is to come to well-founded conclusions on whether a moral issue is ethically justified or not. Put generally, the goal of justification is to identify what ought to be morally right. It is about the evaluation of morals; while some moral principles may be justifiable (e.g., honesty), others are not (e.g., treating others as pure means towards one's own ends). Developing theories and arguments for such justifications has always been at the heart of ethical inquiry. Approaches to business ethics have drawn on these theoretical resources and have used diverse ethical

---

13. Thomas W. Dunfee & Thomas Donaldson, *Social Contract Approaches to Business Ethics: Bridging the "is-ought" Gap*, in A COMPANION TO BUSINESS ETHICS 38, 38–55 (Robert E. Frederick ed., 2002).

14. Norman E. Bowie, *A Kantian Approach to Business Ethics*, in A COMPANION TO BUSINESS ETHICS 3, 3–16 (Robert E. Frederick ed., 2002).

15. W. Michael Hoffman, *Business and Environmental Ethics*, 1 BUS. ETHICS Q. 169, 169 (1991).

16. See generally Benjamin Powell & Matt Zwolinski, *The Ethical and Economic Case Against Sweatshop Labor: A Critical Assessment*, 107 J. BUS. ETHICS 449, 449–72 (2011); Matt Zwolinski, *Sweatshops, Choice and Exploitation*, 17 BUS. ETHICS Q. 689, 689–727 (2007).

theories to come to normative conclusions about moral questions in business.<sup>17</sup>

However, business ethics is not restricted to justifying what is ethically desirable. It also seeks ways to implement it. This second goal of business ethics can be traced back to Aristotle's *Nicomachean Ethics*, which is not only interested in theoretical knowledge but also in its practical implications. Correspondingly, concepts of business ethics seek ways to align people's actions in organizations with justified, commonly accepted principles and norms. As an example, consider the issues of corporate corruption,<sup>18</sup> which hit big corporations such as Siemens, or accounting scandals such as that of Enron, which eventually led to the company's downfall.<sup>19</sup> There, the problem was not one of ethical justification. Almost everybody will agree that corruption and the manipulation of income statements are morally (let alone legally) wrong, but less agreement exists on how to prevent them. The goal of business ethics beyond mere justification of moral principles—to develop action-guiding prescriptions on how to actually realize these principles—can be characterized as the goal of *implementation*. Implementation's aim is to influence behavior—to change business practice in the direction of an ethical ideal. To prove that corruption is morally wrong is one thing. To prevent it in practice is a very different one.

Both goals—justification and implementation—lead to the establishment of normative statements, but they rely on different preconditions. These differences can best be discussed within the formal structure of a practical syllogism as illustrated in *Figure 1*.<sup>20</sup> The practical syllogism involves a normative statement of what is desirable in the first premise, the positing of factual conditions in the second premise, and a prescription for action in the conclusion.<sup>21</sup> Thus, the practical syllogism is a form of reasoning that builds on the interplay of the desirability of one premise and the empirical truth of a second premise. If both premises are accepted, it follows that the conclusion is logically valid (i.e., it is a practical truth).

---

17. See, e.g., NORMAN E. BOWIE, *BUSINESS ETHICS: A KANTIAN PERSPECTIVE* (1999); Thomas W. Dunfee & Thomas J. Donaldson, *Untangling the Corruption Knot: Global Bribery Viewed Through the Lens of Integrative Social Contract Theory*, in *THE BLACKWELL GUIDE TO BUSINESS ETHICS* 61, 61–67 (Norman E. Bowie ed., 2001); PETER ULRICH, *INTEGRATIVE ECONOMIC ETHICS: FOUNDATIONS OF A CIVILIZED MARKET ECONOMY* (1st ed. 2008) (illustrating examples of diverse ethical theories).

18. See generally Blake E. Ashforth, Dennis A. Gioia, Sandra L. Robinson & Linda K. Treviño, *Introduction to Special Topic Forum: Re-Viewing Organizational Corruption*, 33 *ACAD. MGMT. REV.* 670, 670–84 (2008).

19. See Donald C. Langevoort, *The Organizational Psychology of Hyper-Competition: Corporate Irresponsibility and the Lessons of Enron*, 70 *GEO. WASH. L. REV.* 968, 968–75 (2002). See also *Accounting Scandals: The Dozy Watchdogs*, *THE ECONOMIST* (Dec. 13, 2014), <http://www.economist.com/news/briefing/21635978-some-13-years-after-enron-auditors-still-cant-stop-managers-cooking-books-time-some>.

20. Schreck, van Aaken & Donaldson, *supra* note 11, at 299–319.

21. See Mary Mothersill, *Anscombe's Account of the Practical Syllogism*, 71 *DUKE U. PRESS for PHIL. REV.* 448, 453–56 (1962).

FIGURE 1

Goal	Kind of statement	Question of interest
Justification	Normative	Which norms (values, principles, etc.) should individuals adhere to?
Explanation	Descriptive	Why do people (not) act in accordance with justified norms?
Implementation	Normative	How can individuals be brought to act in accordance with justified norms?

In reverse, it can follow that true statements on the implementation level presuppose both an *ex ante* normative justification (e.g., “corruption is morally wrong”) and knowledge of viable ways to implement it (e.g., “corruption is best combated via collective self-commitments”). In terms of a metaphor: effective therapy requires an appropriate diagnosis.<sup>22</sup> The intent to provide an appropriate diagnosis in business ethics corresponds to the *goal of explanation* (level two).

Because of its position relative to the goal of implementation, the descriptive goal of explanation can be considered a means towards the ends of normative business ethics. “Explanation for the sake of implementation” is the short formula for this means-end relation, as proposed by business ethicist Karl Homann.<sup>23</sup> With respect to the relation between descriptive and normative behavioral research, we can conclude that statements on how people *should* behave, necessarily presuppose—without being restricted to—knowledge on how people *actually* behave and why they do so.<sup>24</sup>

In summary, descriptions and explanations of immoral behavior are relevant to any concept of business ethics that goes beyond the goal of justification and also pursues the goal of implementation. This is exactly where experimental research can serve the purposes of normative business ethics. Before analyzing the potential contribution of experimental economics, I would first like to shortly characterize the discipline and then discuss

22. See ANDREAS SUCHANEK, *ÖKONOMISCHE ETHIK* 23–27 (2d ed. 2007).

23. KARL HOMANN & ANDREAS SUCHANEK, *ÖKONOMIK: EINE EINFÜHRUNG* 25 (2d ed. 2005) (stating that the German formulation is “Erklärung zwecks Gestaltung”).

24. OWEN FLANAGAN, *VARIETIES OF MORAL PERSONALITY* 32 (1991) (“Make sure when constructing a moral theory of projecting a moral ideal that the character, decision processing, and behavior prescribed are possible, or are perceived to be possible, for creatures like us.”).

two alternative ways in which economics has methodologically dealt with the phenomenon of morality.<sup>25</sup>

## B. *Experimental Economics and the Methodological Status of Morality*

### 1. *The Specifics of Experimental Economics*

Let's begin with a short specification of the characteristics of experimental economics and how it may be distinguished from related, though different, experimental research areas. There are two strategies for defining experimental economics: either via its specific object or specific method.

One proponent of the first strategy is George Loewenstein, who suggests characterizing experimental economics via its specific *object of research*. He defines the discipline as “the use of experimentation to address economic questions.”<sup>26</sup> However, considering economic questions is hardly a unique feature of economics, as psychologists and philosophers also examine such questions, even though in different ways. Of course, one could additionally restrict experimental economics to the research conducted by economists, following the conviction that “economics is what economists do.”<sup>27</sup> However, economists often conduct research that obviously deals with more than economic questions. For example, Dan Ariely and George Loewenstein (both experimental economists) published a paper in which they examine the influence of sexual arousal on perceived attractiveness of certain sexual stimuli and activities.<sup>28</sup>

Alternatively, the specific research method may serve as the criterion to distinguish between experimental economics and other disciplines. The remainder of this article will follow this approach as specified by Croson in 2005, who identified the following methodological dimensions along which experimental economics differs (e.g., from experimental psychology):

- *Incentives*: Participants in economic experiments make their decisions in the presence of incentives (mostly in the form of monetary payoffs);
- *Context*: In contrast to psychology experiments, participants' decisions are not framed in specific contexts;
- *Subject Pools*: Experimental researchers recruit their participants from a common pool of volunteers, rather than from their student classes (which is common practice in psychology); and

---

25. Again, morality is understood as the sum of ethically-justified and commonly accepted values, norms, and principles.

26. George Loewenstein, *Experimental Economics from the Vantage-Point of Behavioural Economics*, 109 *ECON. J.* F25, F25 (1999) (emphasis added).

27. KENNETH E. BOULDING, *ECONOMIC ANALYSIS VOLUME I: MICROECONOMICS* 3 (1966).

28. See, e.g., Dan Ariely & George Loewenstein, *The Heat of the Moment: The Effect of Sexual Arousal on Sexual Decision Making*, 19 *J. BEHAV. DECISION MAKING* 87, 87–98 (2006); see also Thomas Buser, *The Impact of the Menstrual Cycle and Hormone Contraceptives on Competitiveness*, 83 *J. ECON. BEHAV. ORG.* 1, 1–10 (2012).



- *Deception*: In economic experimental laboratories, researchers may not deceive their participants.<sup>29</sup>

Back to the question of interest: How does experimental economics interpret the phenomenon of morality? To begin with, results from economic laboratory experiments suggest that human beings do not only maximize their private payoffs. By and large, they also consider commonly accepted norms when making decisions in typical economic games:<sup>30</sup>

- In the so-called prisoner's dilemma game,<sup>31</sup> the standard economic prediction is that both players will try to maximize payoffs and defect, resulting in a Pareto-inferior solution. In experiments, however, players realize comparably high levels of cooperation.<sup>32</sup>
- In so-called ultimatum, dictator, and gift-exchange games, the standard economic prediction is that the (seemingly) more powerful player will exploit the other player in order to maximize payoffs. Again, participants in experiments happen to offer (and reject) much higher shares than predicted.
- In experiments on honesty and lying, the standard economic prediction is that participants will only be honest as long as lying will not increase payoffs. In contrast, participants in experiments do not nearly lie as much as possible.<sup>33</sup>

There seems to be a broad consensus in economics that (some) human beings do act morally even in the absence of economic incentives. Why they do so, however, is far less clear. Two fundamentally different methodological strategies have emerged to address this question within experimental economics: one treats morality as an endogenous factor, the other as an exogenous factor.<sup>34</sup>

29. Rachel Croson, *The Method of Experimental Economics*, 10 INT'L NEGOTIATION 131, 133–40 (2005) (mentioning two additional criteria: “experimental procedures” and “data analysis”).

30. To some, this result may seem trivial. However, given the assumptions and predictions of the standard homo oeconomicus model, it is not.

31. Hartmut Kliemt, *Ökonomische Analyse der Moral*, in OKONOMISCHE VERHALTENSTHEORIE 281, 281–310 (Bernd-Thomas Ramb, Manfred Tietzel & Hans-Karl Hartwig eds., 1993).

32. See James Andreoni & Ragan Petrie, *Beauty, Gender and Stereotypes: Evidence from Laboratory Experiments*, 29 J. ECON. PSYCHOL. 73, 81–91 (2008); see also Ernst Fehr & Klaus M. Schmidt, *Theories of Fairness and Reciprocity—Evidence and Economic Application*, in 1 ADVANCES IN ECONOMICS AND ECONOMETRICS THEORY AND APPLICATIONS, EIGHTH WORLD CONGRESS 208, 208–58 (Mathias Dewatripont, Lars Peter Hansen & Stephen J. Turnovsky eds., 2003).

33. See generally DAN ARIELY, *THE (HONEST) TRUTH ABOUT DISHONESTY: HOW WE LIE TO EVERYONE—ESPECIALLY OURSELVES* (2013); Urs Fischbacher & Franziska Föllmi-Heusi, *Lies in Disguise—An Experimental Study on Cheating*, 11 J. EUROPEAN ECON. ASS'N 525, 532–45 (2013); Uri Gneezy, Bettina Rockenbach & Marta Serra-Garcia, *Measuring Lying Aversion*, 93 J. ECON. BEHAV. ORG. 293, 295–99 (2013).

34. See Francesco Guala, *Reciprocity: Weak or Strong? What Punishment Experiments Do (and Do Not) Demonstrate*, 35 BEHAV. BRAIN SCI. 1, 1 (2012) (stating that economists distinguish between “weak” and “strong” reciprocity that explains “the evolution of human society”).

## 2. *Chicago Man's Useful Morality*

Proponents of the first strategy argue in line with Gary Becker's *Economic Approach*<sup>35</sup> when they try to explain the emergence of moral behavior without abandoning the assumptions of the amoral<sup>36</sup> *homo oeconomicus* model. As an allusion to the role of the Chicago school of economics in establishing and defending this analytical behavioral model, McFadden calls it the "Chicago Man" model.<sup>37</sup>

Approaches of this first kind assume that even for a Chicago Man with no *ex ante* morality, it may be rational to behave seemingly morally and thus to cooperate, share payoffs, and tell the truth. Such an approach is rooted in those works of philosophy and economics that interpret morality as a useful human *institution*. According to David Gauthier, for example,<sup>38</sup> human beings commit themselves to moral standards because this self-commitment allows for useful cooperation with other market participants: "[R]ational constraints on the pursuit of interest have themselves a foundation in the interest they constrain. Duty overrides advantage, but the acceptance of duty is truly advantageous."<sup>39</sup> Thus, it is no contradiction to the Chicago Man version of experimental economics if participants in laboratory experiments behave in a way that does not "pay off" in the short run.

Participants do bring cooperative preferences into the lab, which Andreoni and Miller refer to as "homemade altruism."<sup>40</sup> But they do so for strategic reasons: what looks like moral behavior is a rational strategy.<sup>41</sup> In essence, this perspective is the continuation of Milton Friedman's "*as if*"

35. See GARY S. BECKER, *THE ECONOMIC APPROACH TO HUMAN BEHAVIOR* 3, 3–14 (1976); see also Gary S. Becker, *Nobel Lecture: The Economic Way of Looking at Behavior*, 101 J. POL. ECON. 385, 385–409 (1993).

36. Note the difference between "immoral" (against morals) and "amoral" (without morals).

37. Daniel McFadden, *Rationality for Economists?*, 19 J. RISK UNCERTAINTY 73, 76 (1999).

38. See, e.g., JON ELSTER, *ULYSSES UNBOUND: STUDIES IN RATIONALITY, PRECOMMITMENT, AND CONSTRAINTS* (2000); KARL SIGMUND, *THE CALCULUS OF SELFISHNESS* (2010) (exploring "the reciprocity between self-interested individuals").

39. DAVID P. GAUTHIER, *MORALS BY AGREEMENT* 2 (1986).

40. James Andreoni & John H. Miller, *Rational Cooperation in the Finitely Repeated Prisoner's Dilemma: Experimental Evidence*, 103 ECON. J. 570, 571 (1993). See also Colin Camerer & Keith Weigelt, *Experimental Tests of a Sequential Equilibrium Reputation Model*, 56 ECONOMETRICA 1, 11 (1988) (stating that potential cooperation partners form their expectations on homemade altruism).

41. See generally James Andreoni & Larry Samuelson, *Building Rational Cooperation*, 127 J. ECON. THEORY 117, 118 (2006); Robert Axelrod, *Effective Choice in the Prisoner's Dilemma*, 24 J. CONFLICT RESOL. 3, 4 (1980); Robert Axelrod, *The Emergence of Cooperation Among Egoists*, 75 AM. POL. SCI. REV. 306, 306 (1981); Martin A. Nowak, Karen M. Page & Karl Sigmund, *Fairness Versus Reason in the Ultimatum Game*, 289 SCI. 1774, 1774–75 (2000); COOPERATION AND ITS EVOLUTION (Kim Sterelny, Richard Joyce, Brett Calcott & Ben Fraser eds., 2013) (indicating that experimental economists of the Chicago Man version share this perspective with those natural scientists that interpret the evolution of cooperation from an evolutionary biology perspective).

methodology,<sup>42</sup> which served as a legitimization of the unrealistic *homo oeconomicus* model: human beings behave *as if* morality plays a role beyond the logic of monetary self-interest.

To summarize, the Chicago Man version of experimental economics treats morality as an endogenous factor. In consequence, it seeks to explain the emergence of morality by asking how it may prove to be a useful human institution.

### 3. *Morality as an Exogenous Preference and an End in Itself*

Proponents of a second, paradigmatically different strategy cast doubt on the adequacy of the standard *homo oeconomicus* model for a consistent explanation of human behavior: “Clearly there’s a lot more going on here than Becker and standard economics would have us believe.”<sup>43</sup> Their main argument is that there is overwhelming empirical evidence for the existence of non-strategic morality and that economics should adjust its standard model’s assumptions in order to increase its descriptive and prognostic validity. The subsequent integration of various psychological factors into economic behavioral models has also led to explicit considerations of an exogenous preference for norm-abiding behavior.

These developments within experimental economics are closely related to the field of behavioral economics and its efforts to incorporate social preferences in formal analytical models.<sup>44</sup> Based on the limited capability of the standard *homo oeconomicus* model to explain actual behavior, behavioral economists argue that economic models ought to be extended: “[E]vidence indicates that a substantial percentage of the people are strongly motivated by other-regarding preferences and that concerns for the well-being of others, for fairness and for reciprocity, cannot be ignored in social interactions.”<sup>45</sup>

---

42. MILTON FRIEDMAN, *The Methodology of Positive Economics*, in *ESSAYS IN POSITIVE ECONOMICS* 3, 3–16, 30–43 (1966).

43. ARIELY, *supra* note 33, at 26.

44. See, e.g., Gary E. Bolton & Axel Ockenfels, *ERC: A Theory of Equity, Reciprocity and Competition*, 90 *AM. ECON. REV.* 166, 166–88 (2000); Gary Charness & Matthew Rabin, *Understanding Social Preferences with Simple Tests*, 117 *Q. J. ECON.* 817, 822–25 (2002); Ernst Fehr & Klaus M. Schmidt, *A Theory of Fairness, Competition, and Cooperation*, 114 *Q. J. ECON.* 817, 817–68 (1999). Compare DAN ARIELY, *PREDICTABLY IRRATIONAL: THE HIDDEN FORCES THAT SHAPE OUR DECISIONS* (2009), with John Gale, Kenneth G. Binmore & Larry Samuelson, *Learning to Be Imperfect: The Ultimatum Game*, 8 *GAMES ECON. BEHAV.* 56, 65 (1995), and Daniel Kahneman, *Maps of Bounded Rationality: Psychology for Behavioral Ethics*, 93 *AM. ECON. REV.* 1449, 1459 (2003), and Alvin E. Roth & Ido Erev, *Learning in Extensive-Form Games: Experimental Data and Simple Dynamic Models in the Intermediate Term*, 8 *GAMES ECON. BEHAV.* 164, 171–77 (1995).

45. Ernst Fehr & Klaus Schmidt, *The Economics of Fairness, Reciprocity and Altruism – Experimental Evidence and New Theories*, in 1 *HANDBOOK OF THE ECONOMICS OF GIVING, ALTRUISM AND RECIPROCITY* 615, 617 (Serge-Christophe Kolm & Jean Mercier Ythier eds., 2006).

To summarize, the psychological version of experimental economics treats morality as a dispositional preference. When individuals act in line with such dispositions, they experience gains in utility; their violation, in contrast, causes costs. Morality is thus interpreted as an exogenous factor, which should be integrated in formal behavioral models to increase their ability to explain and predict human behavior.

The distinction between these two generic methodological strategies can now be used to address the question of what normative business ethics has to learn from them. Using experimental literature on honesty and on cooperation as an example, the following two chapters will exemplify where exactly normative business ethics can use the findings from the two versions of experimental economics.

### III. MORALITY WITHIN THE “PSYCHOLOGICAL” VERSION OF EXPERIMENTAL ECONOMICS

#### A. *Interpretation as a Problem of Will*

If behavior is the result of individual dispositions, there can only be one interpretation of immoral behavior: it is a function of weak or corrupted preferences. Expressed within the categories of ethics, the origin of immoral behavior is a “lack of character.”<sup>46</sup>

Experiments have consistently shown that different participants lie to varying degrees even when exposed to identical situations. Some are notorious liars, while others tell the truth in every single period of the experiment—although this means that they deny themselves higher payoffs.<sup>47</sup> Some “psychological” experimental economists have used this observation to wonder where this lack of character may stem from. Their search for potential explanations has drawn their attention to the behavior of two populations that proved suspicious on first sight: students of economics and professors of ethics.

Several experiments have analyzed whether economics students are more prone to uncooperative behavior than their fellow students from other disciplines. Early studies from Marwell and Ames, for example, found that economists behave comparably egoistically in public goods games: “Economics graduate students . . . were much more likely to free ride than any of our other groups of subjects.”<sup>48</sup> This result was supported by subsequent studies that claimed that economics students behave less cooperatively in ultimatum games;<sup>49</sup> that they defect more often in prisoner’s dilemma

---

46. JOHN DORIS, *LACK OF CHARACTER: PERSONALITY AND MORAL BEHAVIOR* (Cambridge Univ. Press et al. eds., 2002).

47. See Gneezy et al., *supra* note 33, at 299.

48. Gerald Marwell & Ruth E. Ames, *Economists Free Ride, Does Anyone Else? Experiments on the Provision of Public Goods*, IV, 15 J. PUB. ECON. 295, 306–07 (1981).

49. See John R. Carter & Michael D. Irons, *Are Economists Different, and If So, Why?*, 5 J. ECON. PERSP. 171, 177 (1991).

games;<sup>50</sup> and, finally, that economics students (especially male ones!) are more corrupt than others.<sup>51</sup> Typically, such results are explained with reference to selection effects on the one side and learning or “indoctrination”<sup>52</sup> effects on the other. While the first states that a certain type of student self-selects into economics and business studies, the second expects that the specific design and contents of these study programs change their students’ character. With their findings, such studies lend support for the hypothesis that economics—and particularly MBA programs—undermine their students’ morality.<sup>53</sup>

Not surprisingly, experimental researchers have also reported contradicting evidence. Based on the results of their experimental research, they argue that no differences exist between students of different subjects.<sup>54</sup> But whoever may be right in this debate, the explanation for observed behavior remains the same: it is the character of economics students that (for whatever reasons) is corrupted and is thus responsible for their behavior.

The character of ethics professors, by the way, seems not to be morally superior to that of other professors. As empirical studies—though not conducted in the lab—suggest, ethics professors steal books more often and pay conference fees as (un)reliably as their peers from other disciplines.<sup>55</sup>

As these examples demonstrate, one kind of study in experimental economics analyzes the relationship between individual personality characteristics and behavior. They ask questions such as: Are creative people more prone to dishonesty?<sup>56</sup> Are men more cooperative than women,<sup>57</sup> English-

50. See Robert H. Frank, Thomas Gilovich & Dennis T. Regan, *Does Studying Economics Inhibit Cooperation?*, 7 J. ECON. PERSP. 159, 164 (1993).

51. See Björn Frank & Günther G. Schulze, *Does Economics Make Citizens Corrupt?*, 43 J. ECON. BEHAV. & ORG. 101, 110 (2000).

52. See Yoram Bauman & Elaina Rose, *Selection or Indoctrination: Why Do Economics Students Donate Less Than the Rest?*, 79 J. ECON. BEHAV. & ORG. 318, 318 (2011).

53. See Sumantra Ghoshal, *Bad Management Theories Are Destroying Good Management Practices*, 4 ACAD. MGMT. LEARNING & EDUC. 75 (2005); see also Matthias Philip Hühn, *You Reap What You Sow: How MBA Programs Undermine Ethics*, 121 J. BUS. ETHICS 527 (2014).

54. See David N. Laband & Richard O. Beil, *Are Economists More Selfish than Other ‘Social’ Scientists?*, 100 PUB. CHOICE 85 (1999); see also Anthony M. Yezer, Robert S. Goldfarb & Paul J. Poppen, *Does Studying Economics Discourage Cooperation? Watch What We Do, Not What We Say or How We Play*, 10 J. ECON. PERSP. 177 (1996).

55. See Eric Schwitzgebel, *Do Ethicists Steal More Books?*, 22 PHIL. PSYCHOL. 711 (2009); see also Eric Schwitzgebel, *Are Ethicists Any More Likely to Pay Their Registration Fees at Professional Meetings?*, 29 ECON. & PHIL. 371 (2013); Eric Schwitzgebel & Joshua Rust, *The Moral Behavior of Ethics Professors: Relationships Among Self-Reported Behavior, Expressed Normative Attitude, and Directly Observed Behavior*, 27 PHIL. PSYCHOL. 293 (2014).

56. Francesca Gino & Dan Ariely, *The Dark Side of Creativity: Original Thinkers Can Be More Dishonest*, 102 J. PERSONALITY & SOC. PSYCHOL. 445, 445 (2012).

57. James Andreoni & Ragan Petrie, *Beauty, Gender and Stereotypes: Evidence from Laboratory Experiments*, 29 J. ECON. PSYCHOL. 73 (2008).

men more than Italians,<sup>58</sup> Germans from the East more than those from the West?<sup>59</sup>

### B. Interpretation as a Problem of Ability

Besides the attribution of immoral behavior to an individual's (lack of) character, there is another mode of explanation available to the psychological version of experimental economics. It may assume that an *ex ante* intention for moral behavior exists, but that certain situational (contextual) forces can partially or even entirely crowd out this intention. This way, the explanation of immoral behavior moves from a problem of will to a problem of ability: If a person has the intention to act morally, will he be able to act accordingly?

Presenting the concept of *bounded morality*, Donaldson and Dunfee state that this is not always the case: “[M]oral rationality in economic contexts is *strongly bounded*.”<sup>60</sup> The concept's basic idea is that even if human beings had internalized the world's knowledge on ethics and wanted to act morally, various cognitive and situational constraints would restrict their ability to act accordingly.<sup>61</sup>

In this vein, Kern and Chugh investigated experimentally whether individuals are limited in their moral decisions by cognitive constraints that they are not aware of and thus cannot directly influence. The underlying hypothesis is that human beings come to different evaluations of identical facts once they are presented in different ways. Following the basic arguments of Kahnemann and Tversky,<sup>62</sup> the authors hypothesize that individuals are more likely to engage in immoral behavior when their behavior's result is framed in terms of losses (“loss frame”) rather than in terms of gains (“gain frame”): “[I]ndividuals who perceive a potential outcome as a loss will go to greater lengths, and engage in more unethical behavior, to avert that loss than will individuals who perceive a similarly sized gain.”<sup>63</sup> In accordance with their hypotheses, a negotiation game with MBA students showed that negotiating parties were more likely to lie when the ne-

---

58. Roberto Burlando & John D. Hey, *Do Anglo-Saxons Free-Ride More?*, 64 J. PUB. ECON. 41 (1997).

59. Axel Ockenfels & Joachim Weimann, *Types and Patterns: An Experimental East-West-German Comparison of Cooperation and Solidarity*, 71 J. PUB. ECON. 275 (1999).

60. Donaldson & Dunfee, *supra* note 10, at 256.

61. MAX H. BAZERMAN & ANN E. TENBRUNSEL, *BLIND SPOTS: WHY WE FAIL TO DO WHAT'S RIGHT AND WHAT TO DO ABOUT IT* 19–22 (Princeton Univ. Press 2011); *see also* Donaldson & Dunfee, *supra* note 10.

62. *See* Daniel Kahneman & Amos Tversky, *Prospect Theory: An Analysis of Decision Under Risk*, 47 *ECONOMETRICA* 263 (1979); *see also* Amos Tversky & Daniel Kahneman, *The Framing of Decisions and the Psychology of Choice*, 211 *SCIENCE* 453 (1981).

63. Mary C. Kern & Dolly Chugh, *Bounded Ethicality: The Perils of Loss Framing*, 20 *PSYCHOL. SCI.* 378, 379 (2009).

gotiation outcome was framed as a risk of loss rather than as an opportunity of gain.

The notion of *self-concept maintenance* provides a second example of how the psychological version of experimental economics explains a potential discrepancy between moral intentions and immoral behavior.<sup>64</sup> This concept assumes that human beings have a strong preference for honesty but are willing to reap the benefits that may arise from lying—as long as their behavior still allows them to maintain their self-image as an honest person. This equilibrium may be disturbed, however, when honesty is exposed to corrosive factors.

To analyze these factors' strength, Dan Ariely and his colleagues conducted dozens of experiments to observe the conditions under which participants are willing to overstate their scores in a math task just to increase their earnings in an experiment. To this end, some of the participants were allowed to report their performance score (on which income was based) to the experimenter after they had shredded their test sheets. This experimental design allows for a comparison of lying and honesty on the treatment group level, but not on an individual level. Fischbacher and Föllmi-Heusi proposed a structurally similar design: participants in an experiment roll dice and are remunerated according to the reported roll of the dice—but their report is strictly anonymous.<sup>65</sup>

This stream of research has produced several interesting findings, such as:

- The intensity of financial incentives, as provided in tournaments, increases lying;<sup>66</sup>
- Individuals lie more often when these lies also imply benefits for others and when responsibility for the lie can be shared;<sup>67</sup>
- Having lied once lowers the inhibition threshold for additional lies;<sup>68</sup>
- Low sympathy for the person being lied at, or bad experiences from earlier interactions decrease levels of honesty;<sup>69</sup> and
- Participants who are depleted are more likely to cheat than those who are not.

Based on the latter results, Ariely was also able to explain why, conspicuously, his students' grandmothers are most likely to "die" during exam

---

64. See generally Nina Mazar, On Amir & Dan Ariely, *The Dishonesty of Honest People: A Theory of Self-Concept Maintenance*, 45 J. MARKETING RES. 633 (2008).

65. See Fischbacher & Föllmi-Heusi, *supra* note 33.

66. See Julian Conrads, Bernd Irlenbusch, Rainer Michael Rilke, Anne Schielke & Gari Walkowitz, *Honesty in Tournaments*, 123 ECON. LETTERS 90 (2014).

67. See Julian Conrads, Bernd Irlenbusch, Rainer Michael Rilke & Gari Walkowitz, *Lying and Team Incentives*, 34 J. ECON. PSYCHOL. 1 (2013).

68. See ARIELY, *supra* note 33, at 127.

69. See Daniel Houser, Stefan Vetter & Joachim Winter, *Fairness and Cheating*, 56 EUR. ECON. REV. 1645 (2012).

weeks, when depleted students ask for a retake exam in order to be able to attend their grandmothers' funerals.<sup>70</sup>

### C. Implications

In conclusion, the psychological version of experimental economics provides the following diagnosis: if individuals do not behave in accordance with socially accepted norms, this is due to an (*ex ante*) weak character or corrupting forces that weaken the character. Knowing about a character's weaknesses or those forces corrupting it allows for an improvement of the situation: "[R]ecognizing our shortcomings is a crucial first step on the path to making better decisions, creating better societies, and fixing our institutions."<sup>71</sup> Based on this particular diagnosis, it follows that, from the perspective of normative business ethics (and the goal of implementation), prescriptions should focus on two aspects: strengthening the character and remediating corrupting influences.

With respect to the first aspect—strengthening character—experimental studies have demonstrated that increasing the salience of commonly accepted moral norms can make people behave ethically. Resetting people's "moral compass"<sup>72</sup> could, for instance, be achieved when an experiment's participants hear the Ten Commandments right before making a decision;<sup>73</sup> or when taxpayers testify their honest intent by signing their tax return before, rather than after, providing self-reported information.<sup>74</sup>

With respect to the second aspect—remediating corrupting forces—the better one knows the contextual obstacles on the way to ethical judgment or ethical behavior, the better these can be eliminated.<sup>75</sup> Once Ulysses understands that he will not be able to resist the temptation of the sirens, he has his men tie him to a mast.<sup>76</sup> And if a person knows he tends to apply misleading moral heuristics under time pressure, he should make sure there is enough time when he ought to make important, ethically relevant decisions.<sup>77</sup>

The analysis to this point leads to the following preliminary conclusion: without committing the naturalistic fallacy, the psychological version of experimental economics as a positive discipline can provide guidance to

70. See ARIELY, *supra* note 33, at 106–08.

71. *Id.* at 247.

72. *Id.* at 249–50.

73. Nina Mazar, On Amir & Dan Ariely, *The Dishonesty of Honest People: A Theory of Self-Concept Maintenance*, 45 J. MARKETING RES. 633 (2008).

74. Lisa L. Shu, Nina Mazar, Francesca Gino, Dan Ariely & Max H. Bazerman, *Signing at the Beginning Makes Ethics Salient and Decreases Dishonest Self-Reports in Comparison to Signing at the End*, 109 PROC. NAT'L ACAD. SCI. U.S. AM. 15197 (2012).

75. APPIAH, *supra* note 8, at 49.

76. ELSTER, *supra* note 38.

77. Cass R. Sunstein, *Moral Heuristics* (John M. Olin Law and Econ., Working Paper No. 180, 2003), [http://www.law.uchicago.edu/files/files/180.crs\\_moral\\_.pdf](http://www.law.uchicago.edu/files/files/180.crs_moral_.pdf).



the normative discipline of business ethics. The same holds true for the Chicago Man version of experimental economics, as the following discussion will demonstrate.

#### IV. MORALITY WITHIN THE CHICAGO MAN VERSION OF EXPERIMENTAL ECONOMICS

##### A. *The Question Asked by Normative Institutional Ethics*

As we saw earlier, the Chicago Man version of experimental economics interprets morality as a useful institution of self-interested agents. As a methodological consequence, it looks for the underlying incentives that cause, or at least allow for, ethical behavior.

In moral philosophy, this perspective corresponds to that of institutional ethics (i.e., those ethical theories that, when developing normative implications, are less directed to individuals but rather to the institutions within which individuals perform their actions). One such approach is that of German philosopher and economist Karl Homann, who—in the tradition of institutional economics—distinguishes institutions from the behavior within them. Most importantly, Homann posits that changes in behavior presuppose changes in institutions, rather than in character.<sup>78</sup>

What is of particular relevance for this paper is that institutional ethics demands that individuals and organizations themselves engage in ethical improvements of the institutions in which they operate. This normative postulation is reflected in what Andreas Suchanek calls the “Golden Rule” of institutional ethics: “You ought to invest into the foundations of social cooperation for the sake of mutual advantage.”<sup>79</sup> This imperative of institutional ethics reflects a fundamental normative assumption. It assumes that for every moral problem on the level of behavior, there is a possibility to implement change on the level of institutions that can solve the moral problem to everybody’s advantage. Hence, it will be in the self-interest of individuals and organizations to identify and push for such institutional change. In search of opportunities for institutional change, normative business ethics can resort to the many interesting insights the Chicago Man version of experimental economics has to offer. Using the literature on punishment

---

78. “Bedingungswandel statt Gesinnungswandel” is an often-cited German quote reflecting this principle. KARL HOMANN, *Die Bedeutung von Dilemmastrukturen für die Ethik*, in VORTEILE UND ANREIZE 94, 100 (Christoph Lütge ed., 2002). For the latest comprehensive description of Homann’s theory, see KARL HOMANN, SOLLEN UND KÖNNEN: GRENZEN UND BEDINGUNGEN DER INDIVIDUALMORAL (2014). Unfortunately, no comprehensive English description exists to date.

79. ANDREAS SUCHANEK, ÖKONOMISCHE ETHIK 5 (2001). Similar postulations—though with varying justifications—are shared by those recent concepts of business ethics that attribute a political co-responsibility of business. Cf. Ingo Pies, Stefan Hielscher & Markus Beckmann, *Moral Commitments and the Societal Role of Business: An Ordonomic Approach to Corporate Citizenship*, 19 BUS. ETHICS Q. 375 (2009); Andreas Georg Scherer & Guido Palazzo, *The New Political Role of Business in a Globalized World: A Review of a New Perspective on CSR and its Implications for the Firm, Governance, and Democracy*, 48 J. MGMT. STUD. 899 (2011).

and cooperation as an example, the following section will illustrate this claim.<sup>80</sup>

### B. *The Answer Provided by Experimental Economics*

Throughout the last fifteen years, a voluminous body of research has evolved around the question whether cooperation in dilemma situations may be sustained through granting participants the option to mutually reward and/or punish each other.<sup>81</sup> The typical structure of the interaction is such that on the one hand, the group would be better off if all of its members complied with the social norm of cooperation. On the other hand, each group member has strong incentives to deviate from that norm. Such a structure of interaction is typical for the prisoner's dilemma or public goods games. If, however, an option exists to punish norm-violating behavior, this option may be costly for the punisher but yields even higher benefits if it disciplines other group members into compliance with the norm. From the perspective of institutional ethics, two streams within this literature are of particular relevance.

First, a wide range of experimental studies compare different exogenous institutional arrangements by their capability to enforce socially accepted norms such as cooperation. In these experiments, participants have to accept incentives at the institutional level as they are, but they have the possibility to make decisions on the level of individual actions. For example, Andreoni, Harbaugh, and Vesterlund used different variants of a proposer-responder game<sup>82</sup> to analyze how punishments and rewards can stabilize cooperation among the players.<sup>83</sup> Based on the results of their experimental study, the authors determined that participants discipline each other most and achieve the highest levels of cooperation and social welfare when they have the option to reward or to punish their peers.<sup>84</sup> Similarly,

---

80. The literature offers analyses of many other institutions capable of sustaining cooperation. See generally DAVID M. KREPS, PAUL MILGROM, JOHN ROBERTS & ROBERT WILSON, RATIONAL COOPERATION IN THE FINITELY-REPEATED PRISONERS' DILEMMA (Ctr. for Research on Organizational Efficiency Stanford University 1982). See, e.g., James Andreoni & John H. Miller, *Rational Cooperation in the Finitely Repeated Prisoner's Dilemma: Experimental Evidence*, 103 ECON. J. 570 (1993) (explaining why participants in prisoner's dilemma games tend to maintain high levels of cooperation in early periods). Cooperation is interpreted as an investment in individual reputation, which helps signal trustworthiness towards potential cooperation partners. Other examples of mechanisms that affect levels of cooperation include communication, the degree of anonymity, and the temporal structure of the interaction.

81. See, e.g., Ananish Chaudhuri, *Sustaining Cooperation in Laboratory Public Goods Experiments: A Selective Survey of the Literature*, 14 EXPERIMENTAL ECON. 47 (2010); Guala, *supra* note 34.

82. In this class of two-person economic games, one participant proposes a certain distribution of income among the two players, and the other participant responds to the offer with varying effects.

83. James Andreoni, William Harbaugh & Lise Vesterlund, *The Carrot or the Stick: Rewards, Punishments, and Cooperation*, 93 AM. ECON. REV. 893, 893–902 (2003).

84. *Id.*

Gächter, Renner, and Sefton concluded from their public goods experiments that punishment options in long-term interactions lead to more cooperation and higher profits.<sup>85</sup> And Casari and Luini showed that punishment options are particularly useful in fostering cooperation when supported by the majority of a group.<sup>86</sup> Such works provide important insights into the conditions under which mutual punishment may function as a norm-enforcing institution.

Second—and arguably most relevant to the aims of institutional ethics—another strand of experimental research examines under which conditions members of a group are willing to invest and engage in (endogenous) institution building. In these experiments, participants can exert influence on both the action and the institutional levels. This literature is extraordinarily important because it allows for conclusions as to whether participants of experiments actually interpret the issue of immoral behavior at the action level as a “problem of ability”; and whether they themselves are able to establish the institutional arrangements that allow for moral behavior.

For example, consider the experiment of Andreoni and Gee, who explored the influence of two alternative endogenous control institutions on levels of cooperation in a public goods game.<sup>87</sup> In the case of peer-to-peer punishment, participants make their choices on how much to contribute to the public good.<sup>88</sup> In addition, they can penalize each other for uncooperative behavior (action level).<sup>89</sup> Alternatively, they can also centralize the right to punish and delegate it to an independent policing mechanism, which corresponds to a choice on the level of institutions.<sup>90</sup> In the latter case, the player with the lowest contribution to the public good automatically receives a penalty, making it optimal for each player to provide the second-lowest contribution. Collectively, each player’s intention to contribute more than the lowest contribution causes an upward spiral, ultimately leading to comparably high contributions in the groups that choose the delegated punishment system. In the experiment, 85 percent of all participants did invest into this mechanism, which allowed them to achieve significantly higher group welfare than the remaining 15 percent.<sup>91</sup>

---

85. Simon Gächter, Elke Renner & Martin Sefton, *The Long-Run Benefits of Punishment*, 322 *SCIENCE* 1510 (2008).

86. Marco Casari & Luigi Luini, *Cooperation under Alternative Punishment Institutions: An Experiment*, 71 *J. ECON. BEHAV. & ORG.* 273, 273–82 (2009).

87. James Andreoni & Laura K. Gee, *Gun for Hire: Delegated Enforcement and Peer Punishment in Public Goods Provision*, 96 *J. PUB. ECON.* 1036, 1036–46 (2012).

88. *Id.*

89. *Id.*

90. GUALA, *supra* note 34, at 12.

91. In the Güererk, Irlenbusch, and Rockenbach study, most participants opted for a peer-to-peer punishment system and realized higher rents from their cooperation. See Özgür Güererk, Bernd Irlenbusch & Bettina Rockenbach, *The Competitive Advantage of Sanctioning Institutions*, 312 *SCIENCE* 108 (2006). Cf. Louis Putterman, Jean-Robert Tyran & Kenju Kamei, *Public Goods*

Knowing that participants are willing to invest in the establishment of norm-enforcing institutions also raises the question why they are willing to do so, because investments in such institutions imply a public goods problem themselves, albeit one of a second order. A rational individual would want other participants to bear the costs of the policing mechanism while benefiting from its establishment. Thus, it is not surprising that recent experimental studies suggest that group members are only willing and able to establish centralized punishment systems if “second order free riding” can be punished as well.<sup>92</sup>

Such results take us back to the point of departure. If we observe costly institutional investments where it would be rational to free ride, this raises the same question as when we observe cooperation where it would be rational to defect: Does this behavior reflect an *ex ante* morality, or is it the result of a “calculus of selfishness”?<sup>93</sup> While the studies cited above argue in favor of the latter argument, other authors argue that the establishment of costly, norm-enforcing institutions presuppose a minimum share of altruistically motivated agents.<sup>94</sup>

### C. Implications

Wherever the truth lies, these examples should have demonstrated that even the Chicago Man version of experimental economics has something to offer to normative business ethics. It provides knowledge on how institutions may stabilize moral norms and ethical behavior, and this knowledge bears normative implications.

First, the findings from this strand of experimental economics are most important from an institutional design perspective. The better business ethics will be informed about the functioning of institutions and their capability to guide human behavior, the closer it will come to its goal of implementing ethical behavior:

To the extent that we are interested in improving the lot of mankind it is better to put less emphasis on moral education and on building character and more emphasis on trying to arrange social

---

*and Voting on Formal Sanction Schemes*, 95 J. PUB. ECON. 1213 (2011) (studying the effects of centralized institutions).

92. See Arne Traulsen, Torsten Röhl & Manfred Milinski, *An Economic Experiment Reveals that Humans Prefer Pool Punishment to Maintain the Commons*, 279 PROC. ROYAL SOC'Y B. 3716 (2012); Boyu Zhang, Cong Li, Hannelore De Silva, Peter Bednarik & Karl Sigmund, *The Evolution of Sanctioning Institutions: An Experimental Approach to the Social Contract*, 17 EXPERIMENTAL ECON. 285 (2014).

93. E.g., SIGMUND, *supra* note 38.

94. See Ernst Fehr & Simon Gächter, *Altruistic Punishment in Humans*, 415 NATURE 137, 137–40 (2002); Matthias Sutter, Stefan Haigner & Martin G. Kocher, *Choosing the Carrot or the Stick? Endogenous Institutional Choice in Social Dilemma Situations*, 77 REV. ECON. STUD. 1540 (2010); see also GUALA, *supra* note 34, at 5 (arguing that “[u]nder this interpretation, punishment mechanisms are useful *methodological devices to observe social preferences*”).

institutions so that human beings are not placed in situations in which they will act badly.<sup>95</sup>

Second, these findings are useful in clarifying under which conditions actors may reasonably be expected to partake in the establishment of institutions. The better business ethics will be informed about the emergence and establishment of norm-enforcing institutions, the more guidance it can offer its addressees for the solution of moral problems—and the more it can demand from them to actively contribute to such solutions.

In conclusion, normative business ethics has a lot to learn from experimental economics. This holds true for both the psychological version and, though more surprisingly, the Chicago Man version. Interestingly, the behavioral business ethics literature hardly refers to the findings of the Chicago Man version of experimental economics. This selective reception of the literature may be owed to the field's proximity to the discipline of psychology, but it is an omission to the disadvantage of behavioral business ethics. Because, as I hope to have shown, it is exactly the part of economics that does not presuppose the existence of an *ex ante* morality that could be most useful to normative business ethics and its goal to implement morality.

## V. SUMMARY AND OUTLOOK

Against the background of an alleged antagonism between normative business ethics and experimental behavioral research, this article started out by asking whether the former discipline has anything to learn from the latter. The analysis started out with the distinction of three different epistemological goals of business ethics: justification, explanation, and implementation. While I argued that positive research, such as experimental behavioral research, has very little to offer with respect to the goal of justification, I used the example of experimental economics to demonstrate how the explanations and predictions of this positive discipline may instrumentally serve the normative purpose of implementation.

The subsequent discussion distinguished two versions of experimental economics, each yielding interesting findings for the purposes of business ethics. On the one hand, the “psychological” version treats morality as an exogenous factor when interpreting it as a preference, which agents consider as an end in itself. This line of research offers important insights into whether individuals are willing, and when they are actually able, to act in accordance with their moral intentions.

On the other hand, the traditional Chicago Man version treats morality as an endogenous factor when interpreting it as the useful institution of selfish actors. Here, the focus is less on the individual and more on the institutions that allow for moral behavior. Importantly, recent research has

---

95. Gilbert Harman, *My Virtue Situation* (Dec. 4, 2005), <http://www.princeton.edu/~harman/Papers/Situ.pdf>.

critically examined such institutions' capability to bring about moral behavior where, in absence of such institutions, norm violation is prevalent. And it has shed light on the conditions under which individuals are willing to collectively establish such institutions. These findings could be most informative with respect to the primary purpose of institutional ethics: to identify institutional arrangements designed to align individual self-interested rationality with the ethically desirable outcome.

One question that has remained unanswered is which of the two sketched methodological strategies behavioral business ethics should eventually follow. One could argue that it does not matter because the choice of strategy is a matter of time horizon. Maybe the intention to adhere to social norms has a self-interested foundation, as evolutionary arguments from economists, anthropologists, and psychologists suggest.<sup>96</sup> So from a long-term, evolutionary perspective, ethicists may wonder where moral dispositions come from and thus interpret them as an endogenous factor. But in a given situation, the consideration of such norms may not be contingent upon an agent's short-term advantage. That is why in experiments we often observe moral behavior even though it does not pay off. So, from a short-term perspective, morality will be exogenous in any case. And especially when the analysis focuses on the conditions under which individuals are (not) able to act in line with their moral intentions ("the problem of ability"), both theoretical perspectives converge.

In contrast, one could argue that the choice of methodological perspective does matter as it affects which will be the focal research questions. If it is assumed that moral behavior is rooted in self-interest, then the seemingly exogenous morality (remember the notion of "homemade altruism") will only be sustained if continuously supported by appropriate institutions. That is, institutions warranting that moral behavior will not permanently stand in contradiction with one's self-interest. Hence, the adoption of a Chicago Man methodology will direct the researcher's focus to exactly these institutions, rather than to the individual's dispositions as the psychological perspective would do.

To be sure, from a normative ethics perspective, the focus on institutions does not mean that individual ethics would cease to be relevant. Human beings do not only follow rules, they can also influence them. This option implies an increased responsibility on the level of institutions, even when individuals are partially unburdened from responsibilities on the level of action. So even if ethics is considered a primarily institutional matter, the evaluation of an institution's ethical quality presupposes the capability of ethical judgment. This judgment remains the responsibility of individuals.

---

96. APPIAH, *supra* note 8, at 126–45 (discussing some of these arguments).