The Thought Leader
Interview: Jonathan Haidt

The NYU social psychologist says that the ethical risks for a business depend on its ingrained cultural attitudes.

BY ANN GRAHAM
What causes a company to undermine its own future through ethical missteps? What enables it to lie to regulators, conceal critical data, and take chances on fraudulent activity that might, sooner or later, come to light? Is it the rapacious nature of capitalism itself, as some believe? Is it the work of a few “bad apples,” unavoidable in a milieu of dynamic innovation? Or is it some innate aspect of human behavior, impossible to regulate completely, but possible to understand? This inquiry, framed by New York University professor Jonathan Haidt and a global network of colleagues, could help keep companies out of trouble in the future — or perhaps change our view of what trouble really means.

In July 2011, after 15 years as a professor of social psychology at the University of Virginia, Jonathan Haidt (pronounced “height”) headed to New York City for what he thought would be a one-year stint teaching business ethics in the Business and Society Program at New York University’s Stern School of Business. Haidt, whose core field is moral psychology, had taken up an inquiry into business almost casually. “Honestly, I had little interest in business,” he confessed the day he met with strategy+business at his office at Stern in May 2015. But the topic gave him a respite from a major book project he’d just completed, *The Righteous Mind: Why Good People Are Divided by Politics and Religion* (Pantheon, 2012).

*The Righteous Mind* focuses on the “culture wars” in U.S. politics, and the moral intuitions that shape political and religious debate. It proposes that the divisive views that make abortion, immigration, gay marriage, and climate change hot-button issues can be linked to people’s personality traits and childhood experiences. All humans are, as Haidt says, “born to be righteous.” Political judgments and beliefs are tied to emotions that have deep cognitive sources.

Haidt’s psychology research found that some people instinctively seek out change and have a high tolerance for unconventional behavior. They are more likely to become political liberals. Others are predisposed toward loyalty, authority, security, and sanctity. They are more
likely to become conservatives. The mutual distrust between liberals and conservatives is not always rational. People believe they’re right because of the way they feel.

Could the same be true for attitudes about business and capitalism? Are some people predisposed to trust private enterprise more than government, or vice versa? Are they destined to disagree? Is there any way to resolve this “moral strife,” as Haidt calls it?

Haidt’s curiosity about these questions was piqued further in September 2011, when he began to mingle with members of the Occupy Wall Street movement, which was unfolding just a mile south of NYU. When he rode his bike to the encampments in the financial district, he found a righteous indignation about corporations that reminded him of the complaints about government he had heard from Tea Party members and other conservatives. He wrote down the stories he heard — about being laid off suddenly or being trapped in an underwater mortgage — and incorporated them into the business ethics courses he was teaching at Stern.

Haidt subsequently concluded that views about capitalism boil down to two diametrically opposed narratives, which are highly correlated with political views. Political activists on the left generally see capitalism as part of a long story of exploitation, and see government as the only authority that can contain rapacious market forces. Political activists on the right, by contrast, are likely to see capitalism as the force that liberated people from the despotism of kings and feudal lords, enabling people to start their own businesses and keep some of the value they created. In this second narrative, government is often corrupted by special interests that use regulation to block innovation. Because politically active people hold such radically different views of capitalism, discussions of economic issues are prone to misunderstanding. “In the U.S., when we discuss questions of economic policy, such as the minimum wage, or the right level of corporate income taxes, we talk past each other,” Haidt says. “Even economists do that.”

In his work helping businesses create more sustainable cultures less prone to ethical risk, Haidt has tried to sidestep the conflict caused by divergent views of capitalism. He promotes an approach he calls ethical systems design, which emerged from behavioral science. He describes it as “designing an ethical environment that makes [moral] behavior easy, automatic, and habitual.” Doing so is more effective, he says, than simply urging people to be more ethical while occasionally punishing malfeasance. To actually get results, you must work with human nature as it is and address the complexity of individual and group behavior through the context of where they work.

In 2011, Haidt founded Ethical Systems, a Web-based research portal dedicated to “making the world’s best research available and accessible, for free, to anyone interested in improving the ethical culture and behavior of organizations.” He asked academic collaborators from leading U.S. business schools to join him in building the content on topics such as cheating and honesty, negotiation, conflicts of interest, and whistleblowing. The participants include best-selling author Dan Ariely of Duke University, Harvard’s Max Bazerman and Notre Dame’s Ann Tenbrunsel (who study blind spots in decision making), Adam Grant of the University of Pennsylvania (known for
his work on “givers and takers”), and Linda Treviño at Penn State University (who has written extensively on organizational culture).

Ethical Systems was formally established as a nonprofit in 2014. CEO Azish Filabi joined the organization in 2015 from the Federal Reserve Bank of New York. (Filabi was part of the team that implemented the New York Fed’s financial interventions and liquidity facilities during the 2008–09 financial crisis.) Ethical Systems aims to spark a new dialogue on finance reform that goes beyond compliance with regulation toward genuine commitment to ethical behavior.

This is also a theme of Haidt’s new book in progress: *Three Stories about Capitalism: The Moral Psychology of Economic Life* (Pantheon, due out in 2018). Sitting amid stacks of unpacked source material collected on a trip to Asia last spring, Haidt discussed his epiphany about capitalism, his evolving research, and the nature of business morality.

**S+B: What motivated you to start a research collaborative on business ethics?**

**HAI DT:** Business was new to me when I arrived at Stern. I knew the research on moral psychology quite well — that was my specialty — but I didn’t know enough to say anything useful about its application to business. I was trying to learn about what factors might affect ethics in organizations, and I quickly got overwhelmed.

You can’t just study what makes individuals do unethical things. You have to understand at least a little bit about the law, corporate governance, finance, and accounting. If you want to improve ethical behavior within an organization, you have to think about many moving parts, take many different perspectives, and draw on research from many scientific fields. I knew I couldn’t master all those fields myself, so I thought I’d invite experts to join me. Over time, we’ve developed a different way of thinking about ethics within complex systems, which we think may be helpful to all types of private and public organizations.

**S+B: What’s involved in ethical systems design?**

**HAI DT:** All organizations are complex systems composed of smaller complex systems and nested within larger complex systems. Taking an ethical systems point of view means looking simultaneously at three levels of analysis.

The first and lowest level of analysis is examining the psychology of an individual. Businesses are made up of individuals who have all the flaws that are catalogued in bestselling psychology books, such as Dan Ariely’s *Predictably Irrational* [Harper, 2008]; Dick Thaler and Cass Sunstein’s book, *Nudge* [Yale University Press, 2008]; Daniel Kahneman’s *Thinking, Fast and Slow* [Farrar, Straus and Giroux, 2011]; and my book, *The Righteous Mind*. If you want to reduce the risk that individuals will make bad decisions, we can help you. There is now so much great research on how the social context alters individual behavior. An ethical nudge could be something as simple as putting a picture of eyes nearby, or a photo of a person with very prominent eyes. This makes people feel that somebody is watching them, and it can decrease cheating.

The second level is organizational. This is the level that sociologists study, because an organization emerges out of the interaction of individuals, but is more than the sum of its parts. Organizational identity and values emerge as individuals...
and groups interact. From these interactions, the organization takes on a life and an ethos of its own. Improving organizational culture is much harder to do than nudging individuals, but ultimately it’s more powerful and long-lasting.

Financial regulators concerned about the culture of Wall Street are addressing an organizational-level problem. But it’s not clear that the big banks know how to manage cultural change. Our page on corporate culture explains how we think of ethical culture as a slice of the overall organizational culture. If the organizational culture is “how we do things around here,” the ethical culture represents “how we do things around here when we follow some shared moral principles.”

At the third level, all of these groups are nested within an ecosystem composed of local and national customs and laws. If you can get the regulatory system at the highest level to encourage the development of ethical cultures at the organizational level — and if those cultures encourage ethical behavior by individuals at the lower level — then you have full alignment. Alignment of the three levels is one of the most important features of an ethical system.

S+B: How do you think about a problem at all three levels?
HAIDT: Suppose you want to encourage honesty and integrity in your company. You want to increase the degree to which everyone can trust everyone else. You might start with nudges to reduce cheating and promote honesty at the individual level. For example, when people are reminded about ethics at the start of a meeting, it affects their business decisions; it helps to prevent the “ethical fading” that is so common when groups wrestle with complicated problems.

Next, you’d look at the group level and think about your company’s culture. It’s nice to have ethics and integrity in your mission statement or list of key values, but research shows that such public pronouncements don’t correlate with having an ethical culture. Modeling behavior from the top is much more important. Leaders must be willing to hire, fire, and promote based on core values, not just hitting bottom-line targets or advancing the business’s growth.

Finally, you want to know the legal and regulatory environment in which your company operates, and be sure your company is operating in ways that will earn you credit for having an ethical culture, if a major ethical or legal problem arises. There is a lot of research to be done on U.S. law and on the effectiveness of ethics and compliance programs.

S+B: What are the most important issues for regulatory systems?
HAIDT: Regulators today recognize the importance of culture and behavior. They know they can’t just write more rules. They need to in-
centivize people to improve those informal elements. But to change problematic business behavior, what exactly would regulators reward? No one has figured it out yet.

Business ethics today, in some ways, like medical practice was 50 years ago. It is based more on clinical experience than on evidence. This impedes our ability to design regulations and management systems that reward effective and ethical business behavior. It can be changed only through interdisciplinary research. Business and regulators need to collaborate in thinking about the results. And the research has to have a direct connection to practical issues.

Our expert collaborators study every aspect of business functions, from leadership and accounting to personnel and hiring. The next step will be to correlate that information against the performance of real companies. We have [published research] on how ethics pays in the long run, and one of our goals is to work with regulators to make it pay even more. Jim Lager, who works at the U.S. Government Accountability Office, is one of our collaborators.

We are looking at multiple approaches to measuring different facets of an ethical culture. You can’t use just one method, like sending out a survey to all employees. You have to supplement surveys with more qualitative interviewing, with big data approaches (such as text analysis of emails), and with objective measures of behavior like restatements of earnings. We don’t yet know which are the best specific measurement tools, but we do know that we’ll need more than two or three different methods.

**Ethical Role Models**

**S+B: How would tracking and measuring employee behavior help prevent companies from falling into crisis?**

**HAIDT:** It can benefit individual employees to lie, cheat, and take extraordinary risks when they think they can get away with it, but the benefits they reap usually come at the long-term expense of the firm and its shareholders. We often heard a phrase in the wake of the global financial crisis: “IBG-YBG.” It stands for “I’ll be gone, you’ll be gone.” The companies, and their shareholders and customers, were left holding the bag.

A lot of ethical systems design is therefore taking steps to get everyone thinking about the long term. We can do a lot of that with psychological and cultural techniques, but there’s also a crucial role for the law to play here: Many commentators have noticed that federal regulators have moved away from criminal prosecutions since 9/11, when the Federal Bureau of Investigation and other agencies shifted away from white-collar crime to counterterrorism. Deferred prosecution agreements and gigantic fines became the norm, because they are just so much easier for prosecutors to obtain. But when people are freed from fear of criminal prosecution, and when fines are paid by shareholders, not by the people who made the reckless choices or engaged in illegal activity, there’s an enormous moral hazard — people can reap short-term gains for themselves while imposing long-term costs on others. “IBG-YBG.” That must change, and we are glad to see that the new U.S. Attorney General, Loretta Lynch, says that she’s going to increase the use of criminal prosecutions.

**S+B: Does your research apply to all countries?**

**HAIDT:** The laws and national culture of a country matter a lot. If you are working in a highly corrupt country that doesn’t have a free press disseminating information about unethical companies, it will be much harder to do ethical systems design. For now, we are concentrat-
ing on firms doing business primarily in the United States and other OECD [Organisation for Economic Co-operation and Development] nations that have reasonably good rule of law and a free press. We list research studies on corruption that have investigated whether, when, and why good ethics pays off for such companies, relative to their less scrupulous competitors.

S+B: When Ann Tenbrunsel surveyed financial industry professionals in the U.S. and U.K. in 2015, many of them said that unethical behavior was necessary to succeed. Do you agree?

HAIDT: Nearly all businesses create goods or services that other people want and are willing to pay for. In a healthy industry, the only way to get rich is to make other people better off. The financial sector does that in most cases. But finance is a special world because one of the central actions in finance is trading. A stock or some other instrument is traded at a particular price, and a year later it often appears that one side wins and the other side loses. So there is more incentive to hide information and manipulate the circumstances.

Traders are not spending all day thinking, “How can I make the other guy better off?” They’re thinking, “How can I get an edge?” The constant temptation of insider trading as shown in Michael Lewis’s book Flash Boys [W.W. Norton, 2014] illustrates that mind-set.

The 2008 crisis showed us that some financial professionals were trying to win the game by making other people worse off — for example, by using hard-sell techniques to get uneducated consumers to buy mortgages or other financial products that were likely to harm them. When we see this happening, we automatically say we need more regulation. And it’s true that we need to stop people from abusing the system. But a thousand-page law to regulate how people are going to behave is sure to invite excessive expenditures on attorneys and vast exploitation of loopholes and complexity.

S+B: What’s the alternative?

HAIDT: I had lunch recently with a guy named Mike Bontrager who runs Chatham Financial. His firm helps companies use derivatives to reduce financial risks. But they don’t place their own bets, so their interests are always aligned with those of their clients. Bontrager says they are clear about what they offer. When companies go to many Wall Street banks to help them hedge risk, they are sometimes like sheep to the slaughter. Because it’s so complicated, they don’t know what they’re getting. Some banks take advantage of that complexity. Their interests are at odds with those of their clients. But if Chatham and others like [that firm] succeed, fewer sheep will choose to enter the slaughterhouse, and that business model will eventually shut down.

To me, that’s better than complex regulation.

S+B: So we need more innovation and less regulation?

HAIDT: Whenever possible, we should encourage ethical business models to disrupt an ethically problematic status quo. We can use government to set some of the rules of the game, but complex legislative solutions just invite regulatory arbitrage and high fines and legal fees. Or we might even use philanthropy to incentivize or subsidize business models that make unfair or unethical behavior become unprofitable.

S+B: What do you have in mind?

HAIDT: Let’s look at a common problem: Poor people are often exploited when they try to get credit. Payday lenders serve a function, but serve it badly. What if someone offered US$20 million to finance an entrepreneur who comes up with a business model that serves the needs of the poor better and doesn’t trap them in debt spirals? What if the poor flocked to this alternative company, so that the predatory ones went out of business? What if some socially progressive hedge fund managers put up the prize money to help get it launched?

There’s a new emphasis among Silicon Valley firms to fund prizes for technology innovation. Whoever wins the competition gets a big pot of money and a lot of fame. Why not take that approach to ethical business model innovation?
A Third Path for Capitalism

S+B: What motivated you to start your new book [Three Stories...] about the future of capitalism?

HAIDT: When I talked to Occupy Wall Street protesters in Zuccotti Park, I saw the same cognitive patterns I had found in the political righteous mind: morally righteous and convinced of the perfidy of the other side. For many of them, capitalism is the devil. But at the same time, the people I knew at NYU Stern had a very positive view of capitalism: It represented innovation and entrepreneurship. They thought that businesses could usually solve problems far better than governments.

As I began to learn more about the history of capitalism, I had the same kind of revelation I had when I first discovered biological evolution. In college in 1982, when I first read Richard Dawkins’s classic book The Selfish Gene (Oxford University Press, 1976), I would look around at nature and say, “Wow, now I know how all this stuff got here.”

It was the same for me in 2011, when I first started reading about capitalism. I had the same kind of revelation I had when I first discovered biological evolution. In college in 1982, when I first read Richard Dawkins’s classic book The Selfish Gene (Oxford University Press, 1976), I would look around at nature and say, “Wow, now I know how all this stuff got here.”

In the U.S., and in many European countries, the left is generally ambivalent toward capitalism or negative about it. The social conservatives on the political right sometimes have problems with capitalism, too, because it fosters materialism; in their minds, it pulls you away from God and it can undermine traditional authority. So social conservatives often have mixed feelings about capitalism. But then there are the libertarians who love capitalism. The poles of our political world, especially in the U.S., are very clear. To someone who studies moral psychology, this makes capitalism really interesting.

I have found, looking at many other countries, that two stories have dominated the narratives about Western capitalism through the centuries. I capture these in two 90-second videos I use in my talks about the book. One story, which I call “Capitalism Is Exploitation,” views capitalism as a vampire squid, a curse, a virus, a disaster for the poor and the planet. In the second, “Capitalism Is Liberation,” everyone used to be a peasant or serf, oppressed by the nobles and royals. But beginning in the 17th century, capitalism made it possible for people to rise. It created middle-class prosperity and freedom that has fed economic prosperity more than any other system. For example, the World Bank recently reported that in the next few months, the percentage of people living in extreme poverty will fall below 10 percent for the first time in human history. This is an epic achievement, and it is driven mostly by the spread of markets and commerce, not by government aid programs.

S+B: So what is your third story about capitalism?

HAIDT: I am not sure yet. People have looked for a third story that blends or bridges the first two for a long time. It may not be possible to tell an entirely new story about capitalism.

The best we can do might be to start with the second story — capitalism is liberation — but then be wary of the tendency to idealize or become ideological about markets and companies. John Mackey and Raj Sisodia’s “conscious capitalism” is a great example of a third story that is a variant of the second story.

I’m currently examining third-story approaches from the point of view of moral and social psychology. I hope to write about them in ways that draw in readers from the left and from the right.

It gets most interesting to me when you look at the ideological divisions within each nation. In the most contentious economic debates these days — the minimum wage, overtime pay, environmental regulation — the left is fighting for policies that it believes will help the most vulnerable (including animals and the environment). These people are willing to accept less economic dynamism. Many on the left don’t even like the idea of economic
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growth. They see it as a threat to the environment and to trustworthy human relationships. The right is fighting to keep businesses as free as possible; these people don’t want to do anything that might reduce growth. To the left, they come off as hardhearted — willing to trample on the poor in search of profits.

S+B: Can these points of view be reconciled?

HAIDT: Every nation must think about how to increase dynamism and decency at the same time.

Dynamism is the drive to work, create, and innovate. It’s the desire to solve problems and do big things. Free market societies bring out dynamism like no other kind of society. But we also know creative destruction can hurt people. That feels wrong. We turn to government to tame capitalism, to make it more decent.

Decency refers to our moral intuitions of what is fair and what is compassionate.

European countries such as France make it difficult to fire workers. That seems very decent, but it makes companies more hesitant to hire and it reduces dynamism. The United States is more innovative and dynamic, but our employees have less security and we have a lot more inequality.

There’s no one right answer; different countries will thrive with different forms of capitalism.

S+B: What do you hope your book will accomplish?

HAIDT: I want to strip away the moralism and help people have better, more open, and more productive discussions about capitalism and business, all over the world. I want to give people a tool kit of concepts — from ethics, economics, and psychology — to help them think. Getting capitalism right is, in my view, the most important challenge of the 21st century.