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NOBODY LIKES A RAT

When are colleagues likely to report each other for lying, and what happens when they do?

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In 2002, Cynthia Cooper, then a vice president at WorldCom, presented evidence of massive fraud that she had uncovered to the audit committee of her firm's board of directors. Executives, she found, had improperly inflated the company's profits by billions of dollars. For having the "exceptional guts" to speak up, *Time* magazine named Cooper, along with Enron whistleblower Sherron Watkins, among its Persons of the Year.

Yet whistleblowers are not always celebrated. Reporting another's lies can also arouse a negative response, including demotions and harassment. Even a whistleblower like Cooper, lauded by some, may face blowback from others. "Some people who used to smile and chat with Cooper and her team by the coffee maker," wrote *Time* in 2002, "don't do that anymore."

So under what circumstances is someone likely to risk the wrath and expose a coworker's deception? For businesses to protect their bottom lines, it's an important question. "It's expensive for firms to monitor all of their employees for corruption," Professor **Ernesto Reuben** says. As an alternative, a company can create a work environment in which employees are more likely to report a dishonest colleague. Then, the threat of getting caught may prove enough of a deterrent to prevent fraud.

Reuben, along with doctoral candidate Matthew Stephenson, set up an experiment designed to better understand the circumstances that lead people to lie or report others for lying. In particular, the researchers were interested in understanding how individuals behave when they know their actions will be public and that their peers may hold their activities against them.

For the experiment, each participant was given a number representing her *true* income and asked to declare it publicly. She then received a payout based on her *reported* income. A player seeking a higher payout could simply lie by overstating the number she had been given. The only real check was her peers. Each participant had also been assigned to a small group, within which all members knew each other's incomes. If one of them reported her for lying, she would be heavily sanctioned.

After three rounds, one member was randomly removed from the group. In some cases, as they had been told would happen, these participants were randomly reassigned to other groups. In others, the experimenters asked the remaining players to select whom to let in. To make the choice, they were given information about the candidates, including whether those participants had blown the whistle on anyone in their previous groups.

For the researchers, some of the results were not surprising. When there was random reassignment, 32 percent of the lies were reported, making it a risky gamble to overstate one's earnings. Yet in groups in which participants knew they might have to rely on their fellow players to get back in the game, the amount of reporting dropped to 17 percent. As those games wore on, deceptive teams formed in which lying was prevalent and no one was reported for it.

What surprised Reuben was the extent of the price the rare whistleblowers paid in the selection stage, where even honest participants who hadn't overstated their incomes tended to block whistleblowers from joining their group. There are a few possible reasons for this, the researchers say. It could be that even people who told the truth about their own salaries understood that they might be tempted to lie under the right circumstances and, in that case, they would rather not have a whistleblower around. It's also possible that they resented those who reported on

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Ernesto Reuben

Ernesto Reuben is an Assistant Professor at the Columbia Business School. His research interests lie within behavioral and public economics. Broadly speaking, he investigates the role played by social norms and particular psychological traits on activities that are economically relevant for public policy and business strategy. One of his main interests is studying the microfoundations of prosocial and antisocial behavior. In particular, how intrinsic or...

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their peers as being too self-righteous. Either way, it may help explain why actual whistleblowers have faced difficulties, even when management is supportive of their actions. “There are certain social interactions that firms can’t control,” says Reuben, “like whether or not someone feels comfortable or is accepted by his colleagues.”

Reuben’s research underscores that businesses must consider the barriers whistleblowers may face and be prepared to help manage them. Specifically, says Reuben, companies may want to mimic his experiment to discourage employees from lying in the first place. “Firms can try to replicate the random reassignment by moving people around from one group or department to another,” Reuben says. “Some government agencies already do this to prevent corruption. While it may have a small impact on productivity, this technique is useful in preventing the high costs of fostering an environment where deception is permissible behavior.”

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Read the Research

"Nobody likes a rat: On the willingness to report lies and the consequences thereof"

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