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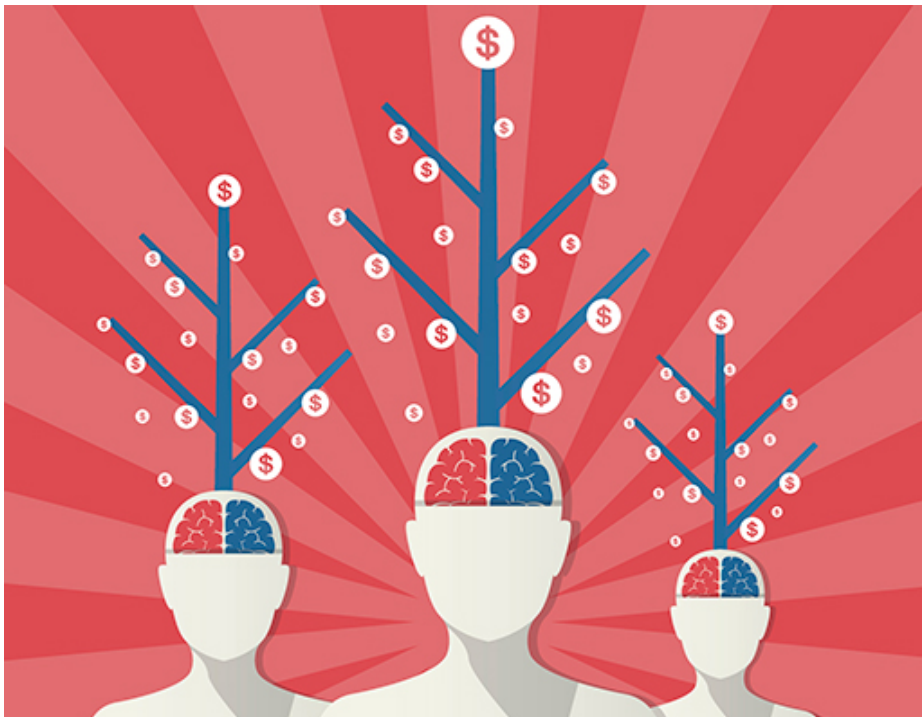
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Online Exclusive

The dynamic duo of cognitive dissonance and moral disengagement

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By Dr. Felicia Riney



I've found, in my corporate experience, that most global business ventures realize that employees will be influenced by gifts, money and trips from vendors or clients. Cultural differences exist that divide the line between ethical and unethical acts. An international client might not consider a small gift of \$200 to be fraudulent because this is a normal practice in his country. However, the local employee *knows* the gift is considered unethical and possibly illegal. Regardless of the giver's location, the employee should abide by their company's ethical regulations. And generally, governmental regulations guide countries on how to adhere by appropriate ethical (and legal) behavior. It would behoove corporate organizations to enforce similar rules internally.

I've worked in numerous business fields such as accounting, finance and economics, and in each I've witnessed commonplace but quite unethical behaviors. My various roles ranged from a payroll manager, instructor, inventory manager, financial analyst at an international company and research accountant/manager to name a few. Small and

unexceptional acts of unethical behavior often lure ethical employees to behave outside of their normal practices. When they're faced with difficult decisions, their rationalizations often lean toward "everyone else is doing it" (common eight-year-old attitude) and "no one will get hurt."

Do employees make conscious decisions to commit fraud, or are they so morally disengaged that they don't associate their actions as unethical or unlawful? Does moral disengagement negate their responsibilities because they don't understand the negative effects of their acts?

Disappearing pens

Consider a simple theft that many otherwise ethical employees commit daily without thinking: pilfering office supplies. This might not seem like a hot fraud topic, but imagine if an employee at a large organization took \$20 a week in office supplies. It adds up.

I worked as the payroll manager in a company with more than 3,000 employees, which required a lot of office supplies. The office supplies were kept in an unmonitored filing cabinet that everyone could access (a common practice at most of the corporate and educational companies where I've worked). So, management often caught employees stealing and hoarding supplies, but they didn't fire them. (Some stole supplies for their kids' use in classrooms.)

Employees stole supplies so often they considered the practice ethical, and they didn't think about negative consequences. Special highlighters or pens would disappear the day they'd come in.

Opportunities can cause problems

Some employees just can't resist temptations because of seductive opportunities (a leg of the Fraud Triangle). The temptations aren't restricted to one company; I noticed that office supply theft was a common occurrence at other companies during my career. Let's look at a diligent employee I worked with at another company, we'll call him Robert (a marketing communication specialist), whose vision was to grow the company in the local economy. He was a husband, father and upstanding citizen. He used his small salary to also help support a large extended family. I felt proud to work with him because of his normally ethical behavior.

When a school year would begin, though, I noticed Robert would slip large quantities of office supplies into his backpack. I later learned from another worker that Robert couldn't afford to buy school supplies for his kids. He obviously felt this one departure from otherwise ethical behavior was justified because of his great need, and he saw other employees doing the same thing.

Instead of reporting Robert to upper management, I felt compelled to talk to him because taking supplies was out of character. I wanted him to understand that the company spent thousands on office supplies and what he was doing was a crime. Robert said he understood he was taking company property, but he rationalized (another Fraud Triangle leg) that he couldn't provide for his kids otherwise. He knew that if they didn't have pens and notebooks their classmates would ridicule them.

Cognitive dissonance vs. moral disengagement

Cognitive dissonance occurs when the mind feels tension from holding two conflicting thoughts, which creates a battle about exhibiting the right behavior during ethical dilemmas. (See [A structural model of emotions of cognitive dissonances](http://www.sciencedirect.com/science/article/pii/S089360801200113X) (<http://www.sciencedirect.com/science/article/pii/S089360801200113X>), *Neural Networks*, Fontanari, Bonniot-Cabanac, Cabanac, and Perlovsky, 2012). But that battle can easily lead to unethical behavior. The employee understands what's ethical and unethical and has an internal conflict when deciding on behavior that causes the least discomfort.

Moral disengagement occurs when someone convinces the cognitive mind that their actions aren't considered unethical behavior. (See Personal Motives, Moral Disengagement, and Unethical Decisions by Entrepreneurs: Cognitive Mechanisms on the 'Slippery Slope,' (<http://link.springer.com/article/10.1007/s10551-014-2078-y>) *Journal of Business Ethics*, Baron, Zhao, and Miao, 2014.)

In the previous example, Robert's cognitive mind told him he was committing fraud, but he morally disengaged himself from the fraud because of his love and loyalty to his family. Also, he decided it couldn't be that bad because the company wasn't penalizing other employees for doing the same thing.

Consider this corrective action

So, how do we guide the conscious mind of employees toward positive cognitive states and away from moral disengagement? Employees must be able to think and make strategic decisions daily. If they're set in negative, unethical state of minds they're more destined to commit fraud.

This is where internal controls come in. Internal controls, which provide systems to monitor behavior, are an integral part of any organization's financial and business policies and procedures.

Internal controls include all the measures an organization takes for: 1) protecting its resources against waste, fraud and abuse 2) ensuring accuracy and reliability in accounting and operating data 3) securing compliance with the policies of the organization and 4) evaluating the level of performance in all units of the organization.

In the example of the company with 3,000 employees ("Disappearing pens" above), I met with the other managers to determine what we could do to cut the costs of supplies. Simply put, we improved the internal controls.

Here are some examples of internal controls we added to the workplace:

- Develop a standard stock list of supplies that includes:
 - Items to be maintained.
 - Quantity of those items to keep in stock.
 - Set time frames to reorder supplies.
- Relocate the cabinet containing the office supplies to an area that allows better monitoring.
- Delegate to an employee the task of monitoring the supply list for replenishing.
- Create a supply check-out sheet on which employees sign for supplies.
- Develop rules and regulations that explain the supplies' purposes and consequences of abusing them.
- Tell employees that management notices inappropriate behavior and will continue to monitor them.

Standards and guidelines help organizations achieve objectives directly related to the internal controls. If an organization's functioning and processing aligns with planned functions, it can achieve its mission.

Implementing good internal controls can cost money, but an organization can reduce the risk of losing large and small assets. In the examples here, the cost of establishing a simple internal control for office supplies is minimal, but the savings can be sizable.

Prevention is key

Organizations can easily overlook small unethical acts when employees use cognitive dissonance and moral disengagement. So, remember to establish solid internal controls and remind your organizations that fraud costs can quickly add up.

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