

## The problem of inculcating honesty

According to the United Nations Office on Drugs and Crime (UNODC), global money laundering transactions are estimated to be between \$800 billion and \$2 trillion per year. According to the Association of Certified Fraud Examiners, companies lose nearly 5% of their revenue each year to employee and executive fraud. Back home in India, just the cost of electricity stolen alone amounts close to Rs15,000 crore.

Dishonesty has a high emotional cost too. An organization that loses trust among its customers due to one dishonest act of their employees will have to demonstrate its honesty in many more occasions just to even stand a chance of conveying to its customers that it has now mended its ways.

Dishonest behaviour has a direct economic impact on a country or an organization. Making humans a bit more honest might be the behaviour change that would bring the highest economic benefit to countries and organizations. Easier said than done, though.

Across the world, several steps have been taken to curb dishonest practices. Stricter regulations have been enacted. More efficient surveillance networks using better technology have been installed. Regular and unexpected audits and raids are being done. Robust data-monitoring tools have been installed. But despite all these efforts, the rate of fraud has only been going up.

Many of the fraud-monitoring systems have gone on to create a dysfunctional environment within organizations. Many honest employees end up believing that the surveillance software and fraud-countering measures are an example of the organization not trusting them. According to an article in *Psychological Review* by L. Jussim, actions that convey expectations of wrongdoing may in fact lead to a rise in misconduct for both honest and dishonest workers by creating self-fulfilling prophecies for the former and self-perpetuating ones for the latter.

Can we develop a fraud-management strategy that is based not just on external monitoring but instead based on monitoring of the moral compass within each individual?

The hope comes from several studies that show that a vast majority of individuals are those who cheat once in a while or cheat only in a few of the transactions in their daily lives. Only 5% of the fraudsters caught have had a prior fraud conviction. We need a deeper understanding of the behavioural contours of fraud activities.

Fraud behaviour in great measure is influenced by the culture and environment in which we live in. A study conducted by Simon Gächter and Jonathan F. Schulz across 23 countries found that people are more likely to indulge in dishonest acts for personal gains if they lived in more corrupt societies.

The perpetrators of most frauds are physically, psychologically and temporarily distant from their victims. This distance makes sure that the fraudster does not relate to the harm they cause the victim. Usually just a feeling that one is going to cause harm to someone is enough to deter a wrong act. But if the party on the other side is the government, or large organizations, the feeling that one could cause harm to them does not easily arise. So there is very little emotional distress when it comes to committing fraud against governments and large corporations. Moreover, in India, thanks to our socialistic background, the common belief is that governments exist only to provide—the norm of paying back to the government is yet to seep in.

It will be very difficult to eradicate all fraud. One needs to choose the easier battles. The initial

focus could be on those transactions where the other party in the transaction and the level of reciprocity involved in the transaction are very clear. For example in a property deal involving two parties, the role of the government in that transaction is not very clear. So the level of reciprocity and the need for paying stamp duty to the government for that transaction is at best ambiguous. On the other hand, in the case of a power company, the transactional relationship between the power company and the consumer who used the power to light up his house is very clear. Therefore, the feeling that the consumer has to reciprocate the power company with regular payment for the power he consumes is easier to visualize and, therefore, to enforce. Policymakers should identify similar transactions where the level of reciprocity is fairly clear to begin our battle against dishonesty.

Several organizations like banks and power companies believe that publicizing the names of the defaulters and shaming them will deter fraud. Shame as an emotion does not exist within in-groups. For that matter, a long list of defaulters will instead reinforce the knowledge that defaulting is the accepted social norm. One should try the reverse strategy: make winners out of those who pay the bills regularly. We need to have many role models of persons and corporates who are very honest.

A vast majority of us will want to inculcate the virtue of honesty in our children. While we tend to present an honest face as a parent, there are a few occasions when we are dishonest. If this dichotomy in people's lives can be exposed, dishonesty levels can come down. Well-crafted programmes in schools can be designed to get children to reinforce the value of integrity among their parents.

Most frauds are a result of occasional behavioural aberrations in the otherwise honest life of an individual. If so, treat fraud as a behavioural problem and the criminal justice system will have much less work to do.

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