There's a Hidden Price for Being a Cheat

By ROBERT H. FRANK

WITH steroid violations and accounting chicanery so much in the news, one begins to wonder how honest individuals still manage to survive at all in competitive domains.

Sanctions against violators obviously help, but what about the countless situations in which cheaters face little possibility of being caught and punished? Is it quixotic to hope that honesty will prevail in these situations?

Economic analysis suggests that this question has a different answer in the world of sports than in the world of business.

At first glance, the factors that motivate cheating seem to reinforce pessimism about its inevitability. Although some athletes take steroids to gain an unfair advantage over their rivals, evidence suggests that most who use these drugs do so simply because they believe that everyone else is cheating. To these athletes, to refrain from cheating may actually seem unfair.

Corporate misconduct stems from a similar mix of motives. Without doubt, some cheaters are driven primarily by greed and raw ambition. But many others are just trying to avoid falling behind their rivals.

Given the Darwinian logic of competition, it would seem that honest competitors - those who don't cheat even when no one is looking - should be destined for extinction, both in sports and in business. But there is an important and often overlooked difference between these two domains.

In sports, dishonest competitors lose ground only in the relatively rare instances in which they are caught and punished. But in business, even cheaters who are never caught often pay a price. It is not an explicit price, but rather a failure to be eligible for certain valuable opportunities.

In particular, business managers with a reputation for cheating are less likely to be promoted into positions that require trust. A business owner considering whether to open a branch in a distant city where close supervision is impossible, for example, may know that the venture is likely to be highly profitable only with an honest manager running it.
In this case, dishonest candidates suffer not because they were caught and punished for cheating, but rather because they were not offered responsible jobs at premium salaries in the first place. What is critical here is that business owners must be able to identify those who will perform honestly even when cheating cannot be detected. Can they do that?

Imagine yourself having just returned from a crowded concert to discover that you have lost an envelope containing $5,000 in cash. (You had just cashed a check for that amount to pay for a used car you planned to buy the next morning.) Your name and address were written on the envelope. Can you think of anyone, not related to you by blood or marriage, who you feel certain would return your cash if he or she found it?

Most people say they can, and considerable evidence supports them. In one experiment involving a game of trust, for example, strangers of only brief acquaintance were asked to predict which of their partners would cheat them. The players they identified were more than twice as likely as others to be cheaters.

Character judgments regarding people of more extended acquaintance should be even more accurate. If the people who make promotion decisions in business can make sufficiently accurate character judgments, honest candidates have an inside track for promotion into well-paying positions that require trust. That explains why honesty is often a winning strategy in business.

The situation is fundamentally different with athletes. Suppose there were a completely undetectable drug that enhanced performance in the 100-meter dash. Now imagine a sprinter known by all to be scrupulously honest, someone who would not take the drug, even if there were no chance of getting caught. This sprinter would be no more likely, by virtue of his honesty, to win a race.

On the contrary, because at least some other sprinters can be expected to cheat, he stands a better chance of losing. After retiring from sports, he might have a leg up as an applicant for a job that required trust. But that won't help him win any races.

Beliefs matter. If people believe cheating is inevitable, there will be more of it. So if honesty in business is not a losing strategy, it would be good for people to realize that. Of course, just because honest people might prosper in intensely competitive business environments provides no guarantee that they will do so. In every domain, we will continue to need strict rules and sanctions to help keep misconduct at bay.

Even so, things aren't as bad as many seem to think. Regarding the criteria for success, George Burns once said, "You've got to be honest; if you can fake that, you've got it made." Employers are no doubt fooled some of the time, but faking honesty is easier said than done. By the time people are considered for positions that require trust, their employers are likely to have considerable insight into their character.

In business, there is indeed great advantage in being seen as honest. The best way to gain that advantage, it seems, is to be honest.
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