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Compliance in teams: liability matters

Decisions in groups are more likely to lead to violations of rules and laws. Prof. Dr. Tim Lohse and Dr. Sven A. Simon analyse the reasons for this and show possible solutions.

01.02.2022 — Prof. Dr. Tim Lohse

Groups are less likely to follow rules, norms and laws than individuals are. Unless each person is held fully liable for the financial consequences of the team decision. A study at the Max Planck Institute for Tax Law and Public Finance in Munich in cooperation with the HWR Berlin adresses the question of why breaking rules is easier in a team than alone and how to promote compliance.

Whether it is the Wirecard affair, the CumEx fraud or the Volkswagen emission scandal: when fraud occurs in organisations, a whole range of people are often involved. Is cheating for groups easier than for individuals? Studies from behavioural economics and social psychology confirm the impression given by numerous cases of non-compliance. In teams, we tend to make more dishonest decisions than we do on our own. Does this mean that we should abandon teamwork altogether?

What is it about teams that makes them more likely to ignore rules and social norms? And what can be done to stop them from doing so? To answer these important questions, Tim Lohse, a professor at the Berlin School of Economics and Law, and Sven Simon, a research fellow at the Max Planck Institute for Tax Law and Public Finance in Munich, asked 268 subjects to participate in a laboratory experiment.

Do audits increase team compliance?

The participants in the experiment were first randomly assigned a low or high income. Then, they had to declare their earnings. They knew: I have to pay tax on a high income. If I declare a low income, I can go tax-free but risk an audit. If I am caught with a false declaration, I will have to pay the taxes in addition to a fine. Thus, the compliance experiment differed from previous behavioural economics studies in one crucial respect: dishonest statements could be financially sanctioned. This allowed the two researchers to determine whether teams are actually more dishonest than individuals in the face of potential audits.

“We were able to show that teams do not make more dishonest decisions in principle, but only under certain circumstances: If a member of a group has to bear the full economic consequences of a decision herself, the group is almost as honest as the individual. But if the profits and losses are shared within the group, everyone tends to behave more dishonestly,” says Sven Simon, summarising the study results. “To increase a group’s compliance, we therefore recommend that organisations hold team members individually accountable.”

What matters is not who decides but who is liable

Participants had to report their income in 10 rounds. They made the reporting decision either alone or together with a subject randomly assigned to them as a team. The potential financial gains and penalties resulting from the dishonest decision had to be either borne by the individual subjects or were shared within the team, allowing the researchers to compare decisions from four different scenarios overall.

A comparison between individual and team decisions first showed that teams are more dishonest than individuals even in the face of possible consequences. Thus, the results confirm previous research. But a more detailed analysis, which included economic accountability, revealed a surprising finding: whether the decision to disclose was made as a team or as an individual had only a small, insignificant effect on non-compliance. Instead, the issue of liability was decisive: if the potential gains and costs from dishonest reports were shared within the team, this led to significantly more dishonest behaviour.

Financial considerations more important than moral concerns

“In practice, this means companies can continue to build on teamwork and do not have to revert to individual decision-makers and more hierarchy. However, it is important for compliance that each team member is fully and not only partially liable for the economic consequences of the joint decision,” says Tim Lohse.

An analysis of the logged chats of the team’s decision-making process also confirmed that team members were primarily concerned about risking an audit and the financial consequences of their actions. Moral concerns about making a dishonest decision and violating social norms played only a secondary role.

According to Lohse and Simon, the fact that joint decision-making by teams as such did not lead to a significant increase in dishonest behaviour is both good and bad news: On a positive note, teams do not perform fundamentally worse than individuals in terms of compliance. Possibly, because the person on the team who wants to cheat, in addition to their own moral overcoming, has to convince their team member to do it as well. The bad news, on the other hand, is that cheating can occur even if only one of two team members benefits.

In the experiment, 70 percent of the participants were willing to actively lie for the other team member, even if they themselves did not benefit financially. One possible explanation is that the moral responsibility for a team decision is attributed only to the person who benefits financially.

Pious lies and social regrets

According to the researchers, the fact that teams behave more dishonestly than individuals when all members share the liability could have two causes: First, moral responsibility may be less of a burden under the guise of the group. Finally, the individual can justify his or her misstep by saying that they did it not (only) for themselves, but for the group. Second, shared dishonesty reduces certain social risks. A sorrow shared is a sorrow halved: Regret that a different decision might have led to higher earnings may weigh less heavily in a team because you are not alone with the consequences. If everyone benefits equally from a decision, the social comparison is not to the disadvantage of one or the other.

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