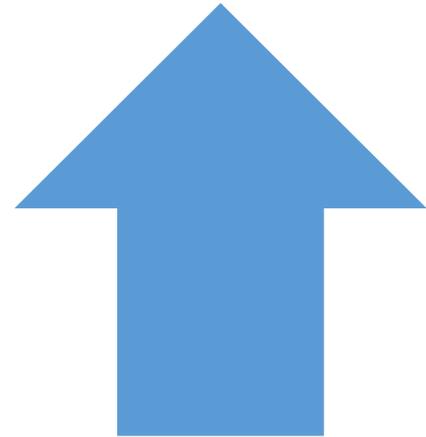


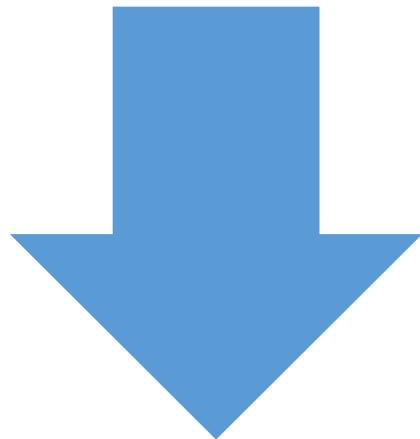
The 'bad apples' attribution

Why it's a problem

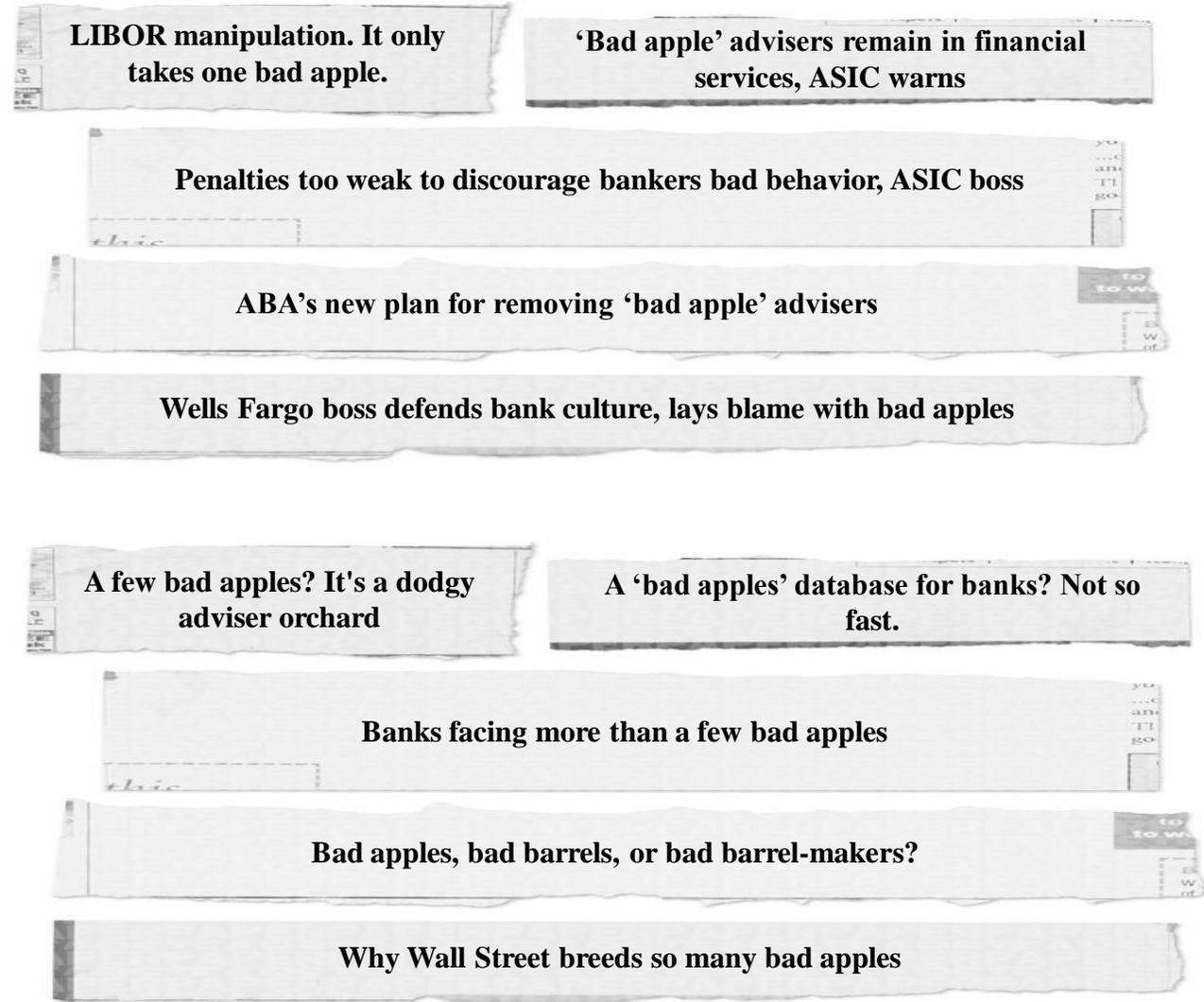
Whist some commentators like draw attention to the elephant in the room, the 'bad apples' hypothesis is still widespread



'We had some bad apples...'

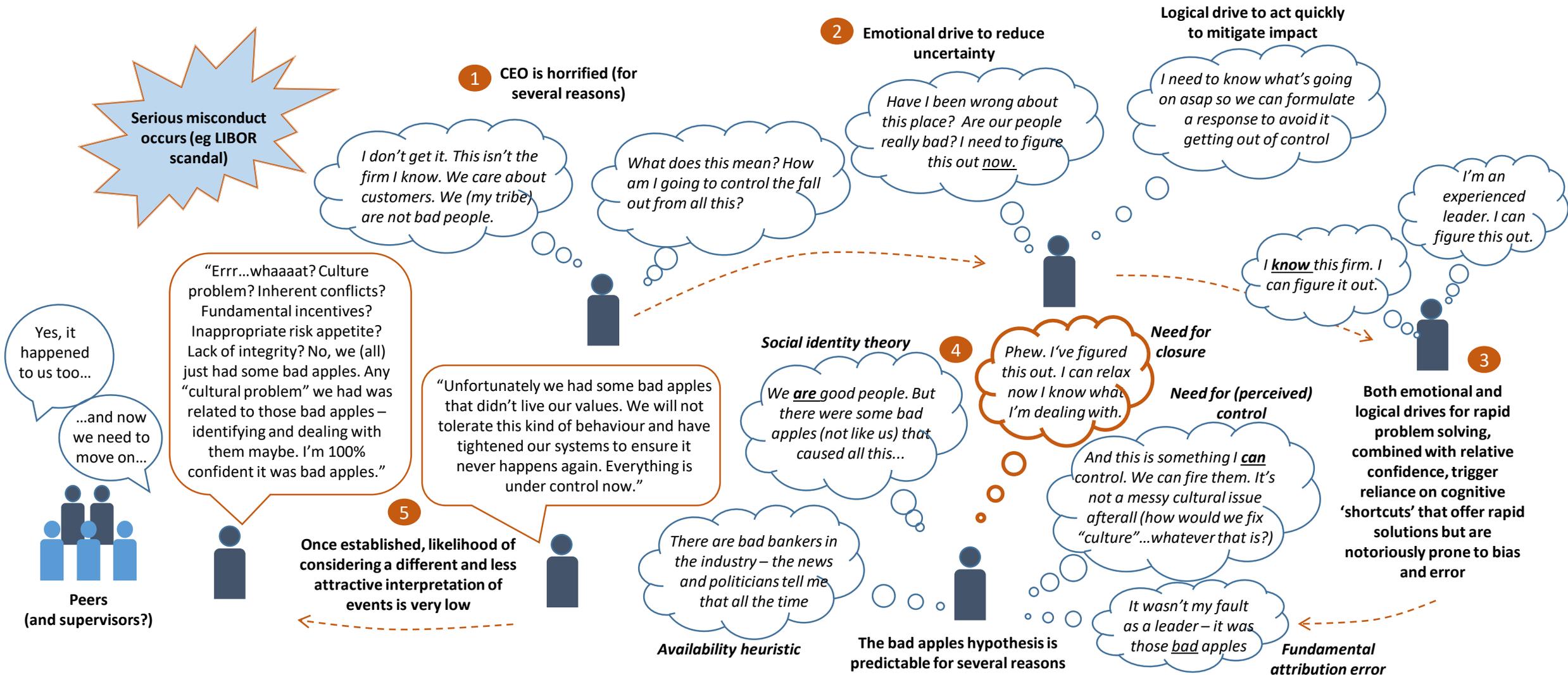


'The whole barrel?'



'Bad apples' – why is it such a popular hypothesis?

When serious misconduct occurs, from the perspective of senior banking executives...



A little more on the psychology of the bad apples attribution process

Initial shock when misconduct occurs:

Cognitive uncertainty

- In most cases, the CEO will experience cognitive uncertainty: *why* has this misconduct occurred? Rarely do CEOs lead organisations that they believe to be unethical, so instances of severe misconduct disrupt conscious or unconscious interpretations of reality
- This uncertainty is particularly troubling because the situation represents a threat to their self-image– as the leader of an organisation s/he asks herself: does this mean / am a bad person because people in my organisation have done things that seem so bad?
- Naturally, humans are driven to reduce uncertainty in order to re-establish ‘order’ in their world. When uncertainty exists, it creates discomfort, and hence there is a powerful emotional motivation for CEOs to **rapidly** find a reason for why misconduct has occurred (as well as a logical one of course).
- This drive to reduce uncertainty will be exacerbated in some CEOs as some individuals also have less tolerance for cognitive uncertainty (and a higher need for control) than others

How to solve the problem

The role of confidence

- CEOs are generally confident in their decision making ability. Moreover, the decision they need to make – whether misconduct is due to fundamental cultural issues, or isolated examples of poor behaviour that was not controlled – is considered within their domain of expertise as a leader that receives a range of relevant data and works day-to-day in the business
- Individuals who are confident they can quickly resolve uncertainty utilise mental ‘shortcuts’ – heuristics that help them make decisions quickly on the basis of existing explanations; this means they avoid more effortful cognitive problem solving involving systematic data collection, analysis and synthesis*.

The bad apples explanation

Cognitive bias

- When relying on heuristics, and due to the particular nature of the problem, a range of cognitive errors make the bad apples hypothesis highly predictable:
 - *Availability bias* – the external environment is stacked with examples of poor behaviour in the financial sector, and more recently, the attribution of ‘bad apples’ as an explanation instances of misconduct scandals– this means it comes to mind quickly as a possibility that seems highly likely
 - *Social identity theory* – as leaders of an organisation, CEOs attach part (for some, a significant part) of their self-concept to it. SIT argues that people are inherently motivated to perceive their in-groups in a positive light – that is, they believe that their staff are ‘good’ people. Hence, in order to reconcile instances where severe misconduct has occurred, the ‘bad apples’ hypothesis plays an important psychological role for CEOs to maintain their positive self-concept.

* Such an approach is also consistent with the general belief that culture is a topic that is instinctively understood or ‘felt’, rather than an objective topic that can or should be analysed

A little more on the psychology of the bad apples attribution process

The bad apples explanation

Cognitive bias (continued)

- *Need for control* – humans are instinctively driven to feel in control. CEOs of large institutions recognise that they can not actually *control* the behaviour of every individual within it – they must rely on a complex system of primary and secondary influence. When misconduct occurs, need for control is even more amplified, and the lack of primary control is brought into stark contrast. When trying to make sense of how the situation arose, the bad apples hypothesis is a far more attractive interpretation than widespread cultural failure:
 - there is implicit recognition that a widespread cultural cause would be very difficult to directly control (since the levers required involve an imperfect mix of primary and secondary influence)
 - on the other hand, the bad apples hypothesis, revolves around a smaller number of people and some high impact actions directly controlled by the CEO (eg terminating employment, implementation of a zero-tolerance risk appetite for non-compliance)

The bad apples explanation

Cognitive bias (continued)

- *Fundamental attribution error* - this is a common decision making bias describing the tendency to apply personality-based explanations for behaviour instead considering external factors; in the context of organisational misconduct it explains the tendency to attribute blame to individual 'bad apples' versus the system in which they operate.
- *Externalised fault attribution* - For CEOs, who have ultimately accountability for the system, fundamental attribution error also offers secondary psychological 'benefit' by neatly avoiding the issue of personal blame for the situation

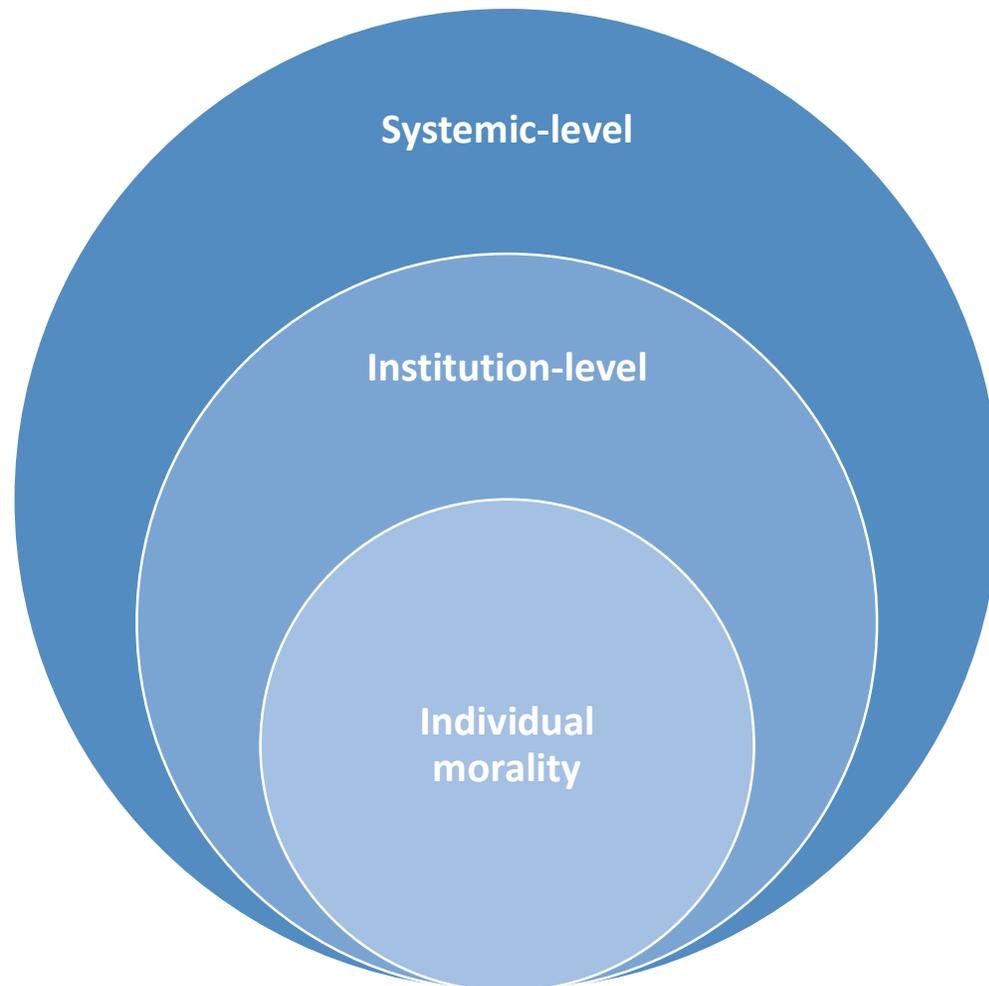
Perpetuating the explanation

Close-mindedness to alternate explanations

- Once the bad apples hypothesis is accepted, there are several powerful urges to sustain it. In addition to the original drivers for its initial acceptance, there are now additional psychological motivations at play:
 - Fear of being returned to the sensation of non-control
 - Ego protection – ie, not admitting that the initial explanation was erroneous
 - Avoidance of moral shame –eg for firing people unjustly
- In addition, confidence in the explanation (validated by its social acceptance) creates a circular reinforcement of the original cognitive shortcuts contributing to the initial hypothesis, as well as a direct effect of close-mindedness to more effortful cognitive processing that might lead to a different conclusion.
- In short, once the 'bad apples' hypothesis has been accepted, it is very difficult to unwind...

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Why is the 'bad apples' attribution problematic?



- Development of a system-wide environment of poor error management (contributing to denial and shame of failure, reducing transparency regarding errors and subsequent analysis, learning and improvement)
- Reinforcement of bad apples hypothesis for *all* institutions (via social validation of the explanation and availability heuristic)
- Reduced motivation to increase formal accountability for creating organisational cultures that avoid misconduct
- Reduced system-level investigation into how institutions can create organisational cultures that avoid misconduct, and hence a lack of learning that would enable prevention of future cultural failure
- High likelihood of developing/perpetuating a poor error management culture (ie, one where errors are 'not tolerated' and severe consequences are applied for non-compliance), leading to a range of negative effects – for example, lack of transparency, learning and improvement regarding errors, increased error rate due to stress and distraction, reduced psychological safety of employees, etc
- Close-mindedness to possibility that broader cultural concerns may have contributed to instances of misconduct, and hence a lack of insight and learning required to prevent future cultural failure
- Lack of role modelling by leaders regarding their own mistakes and failures (reinforcing lack of accountability and transparency at lower levels of the organisation)
- Avoidance of the idea that individuals operating within a social system that reinforces poor behaviour may be unintentionally 'encouraged' to engage in misconduct, regardless of their individual 'moral compass' – hence calling into question the justice of severely punishing them
- Conversely, avoidance of the idea that senior leaders accountable for the system that contributed to poor behaviour, may avoid penalty by attributing fault to individuals within that system as if they were personally responsible due to a lack of 'good morals'