

# Businesses FORGOOD: Developing a framework for ethical behavioural science in corporations

Annabel Gillard  
Bishin Ho

20/09/2022

# Introduction

## Situation

- **FORGOOD** provides an **ethical framework** for the development and evaluation of **Behavioural Science** interventions within the **public sector** <sup>1</sup>

## Complication

- However, there is **no comparable, unified ethical framework** for interventions deployed by **private sector corporations** <sup>2,3</sup>

## Solution

- This **white paper** provides a **potential solution** by **adapting 'FORGOOD'** for the **corporate sector** with the **aim of generating** industry and academic **discussion**

<sup>1</sup> Lades, L. K., & Delaney, L. (2019). Nudge FORGOOD. *Behavioural Public Policy*, 1–20. <https://doi.org/10.1017/bpp.2019.53>

<sup>2</sup> Bazerman, M. H., & Moore, D. A. (2012). *Judgment in Managerial Decision Making* (8th ed.). Wiley.

<sup>3</sup> Caldwell, L. (2018). Public and private sector nudgers can learn from each other. *Behavioural Public Policy*, 2(2), 235-245. doi:10.1017/bpp.2018.15

# There is an imperative for corporate sector behavioural science ethical standards



Magnifying impact of technology and data\*



Behavioural insights can be harnessed to improve customer experience - a sustainable source of competitive advantage#



However, potential existential jeopardy and risks for companies, stakeholders and profession^

\*Zuboff, Shosana (2019) *Surveillance capitalism* London, Great Britain Hachette Book Group,

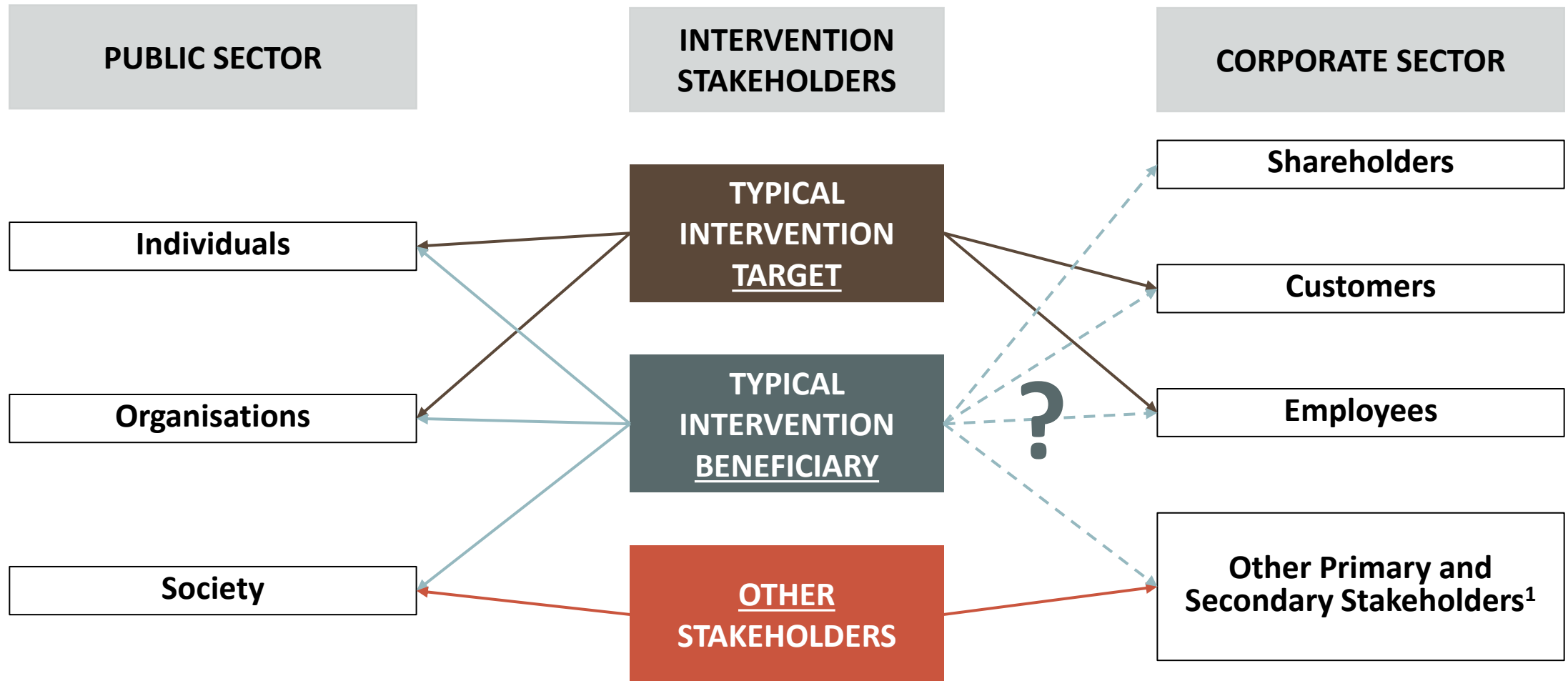
Kosinski, Stillwell, and Graepel (2013) *Private traits and attributes are predictable from digital records of human behavior*, PNAS, 110 (15) 5802-5805

Herteux, A. (2019). Behavioural Capitalism and Surveillance Capitalism—A Comparison of Two Interpretations of a Development of Capitalism. *International Journal of Social Science and Economic Research*, 4(12), 7253-7268

#Holmund et al (2020) *Customer experience management in the age of big data analytics: A strategic framework* Journal of Business Research, Volume 116, 2020, Pages 356-365, ISSN 0148-2963,

<https://www.amnesty.org/en/latest/news/2019/07/the-great-hack-facebook-cambridge-analytica/>

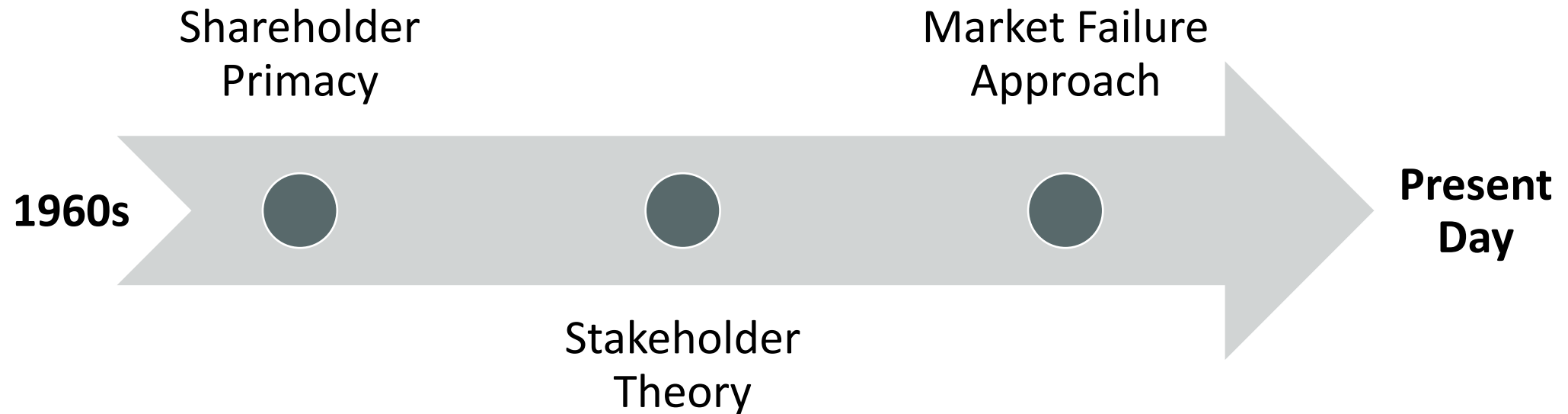
# Corporate sector ethical standards must account for the unique stakeholder needs of corporations



Freeman, R., Harrison, H., Wicks, A., Parmar, B., & S., de Colle (2010) *Stakeholder Theory: The State of the Art*. Cambridge University Press.

<sup>1</sup>Primary: suppliers, financiers, communities; Secondary: government, competitors, special interest/ advocacy groups, media

# Behavioural science in corporations can be evaluated through established business ethics frameworks



- Convergence of what is 'ethical behaviour' as stakeholder interests increasingly influence shareholder interests (shifting social norms)
- Supports more consistent interpretation of FORGOOD in corporate sector

# Ethical challenges may arise with competing beneficiary considerations

## A proposed adaptation of FORGOOD for Corporations

## Assessment

Fairness	Does the behavioural intervention <b>treat</b> its <b>target fairly</b> ? Does it <b>attempt</b> to <b>fairly manage conflicts of interest</b> between targets, beneficiaries and other relevant stakeholders?	Yes/ No/ Mitigation
Openness	Is the behavioural intervention <b>disclosed</b> or <b>evident</b> to the <b>target</b> ?	✓
Respect	Does the behavioural intervention <b>respect</b> the <b>target's autonomy, dignity, freedom of choice</b> and <b>privacy</b> within the <b>context</b> of their <b>relationship with the corporation</b> ?	Yes/ No/ Mitigation
Goals	Does the behavioural intervention <b>seek</b> to <b>improve outcomes</b> for targets, beneficiaries and/or other relevant stakeholders of the company?	Yes/ No/ Mitigation
Opinions	Does the behavioural intervention <b>pass the 'front page test'</b> of public opinion?	✓
Options	How does the <b>financial</b> and <b>non-financial cost/benefit assessment</b> compare to other options?	Quantify & Compare
Delegation	Does the company have the <b>regulatory right</b> and <b>ability</b> to <b>implement</b> the <b>behavioural intervention</b> ?	✓

# Case study example – automatic round up of purchase amounts

A proposed adaptation of FORGOOD for Corporations		Assessment
F	Our actions are fair because they enable customers to achieve their goals	✓
O	Customers select parameters giving full disclosure to the target?	✓
R	Customers make free and informed consent preserving their freedom of choice. This & a goal of improved financial wellbeing maintains their autonomy & dignity <b>Privacy protocols are required to protect data &amp; security</b>	MITIGATION
G	The intervention assists customers achieve their goal of saving more, assists shareholders goals of growing the company and regulators goals of more public saving	✓
O	It <b>passes the ' front page test'</b> of public opinion?	✓
O	Other options to save more could involve auto-saving pre-fixed sums, or notifications to suggest saving. May result in saving more but would increase salience of sums deducted. Quantify costs of offering both approaches with customers choosing their preference	MITIGATION
D	We have the technical ability and can apply for regulatory approval	✓

# Next steps....

## Limitations

1. Industry feedback and buy-in is needed
2. Does transparency reduce effectiveness
3. Distinction from traditional marketing methods
4. Interventions using AI may be subject to new EU regulations\*

## Proposed resolution

1. Seek industry input and iterate
2. Comply or explain
3. Opt-in for those who aspire to a Behavioural Science profession
4. May need to update framework to integrate regulations



# Conclusion

- Ethical use of behavioural science in the corporate sector has economic, reputational and social advantages
- It is consistent with shareholder, stakeholder and MFA approaches
- The successful FORGOOD framework can be adapted to corporate sector needs
- Everyone benefits from a successful, ethical behavioural science profession with high public trust and confidence

Thank You

# The ethical considerations of FORGOOD are universal and can be interpreted for corporations at a high level

## A proposed adaptation of FORGOOD for Corporations (baseline considerations)

Fairness

Does the behavioural intervention **treat** its **target fairly**? Does it **attempt** to **fairly manage conflicts of interest** between targets, beneficiaries and other relevant stakeholders?

Openness

Is the behavioural intervention **disclosed** or **evident to the target**?

Respect

Does the behavioural intervention **respect** the **target's autonomy, dignity, freedom of choice** and **privacy** within the **context** of their **relationship with the corporation**?

Goals

Does the behavioural intervention **seek** to **improve outcomes** for targets, beneficiaries and/or other relevant stakeholders of the company?

Opinions

Does the behavioural intervention **pass the 'front page test'** of public opinion?

Options

How does the **financial** and **non-financial cost/benefit assessment compare** to other options?

Delegation

Does the company have the **regulatory right** and **ability** to **implement the behavioural intervention**?

# The MFA may be helpful for interpreting FORGOOD where there are conflicting priorities and a lack of regulation

B

	Fairness	Goals	Options
Definition	Does the behavioural intervention <b>treat its target fairly</b> ? Does it <b>attempt to fairly manage conflicts of interest</b> between targets, beneficiaries and other relevant stakeholders?	Does the behavioural intervention <b>seek to improve outcomes</b> for targets, beneficiaries and/or other relevant stakeholders of the company?	How does the <b>financial and non-financial cost/benefit assessment compare</b> to other options?
Example Conflict	<b>Shareholders vs Customers:</b> Encouraging addictive behaviours to drive financial profit (e.g. social media, gambling)	<b>Shareholders vs Customers:</b> Using information overload to influence users to share personal data (e.g. for product development and advertising)	<b>Customers vs Other Stakeholders:</b> Providing environmental offset as standard or as the encouraged option for an additional cost (e.g. packaging and shipping for goods, carbon offset for flying)
Key Issue	<b>Opportunistic behaviour</b>	<b>Imperfect Information</b>	<b>Negative externality</b>
Potential Resolution	Give customers the option to add their own circuit breaks within their use of a product	Reduce information asymmetry by providing transparent and digestible summary of main points when seeking consent	Absorb financial cost of offsetting environmental impact as a business expense for any gap

# Key Definitions

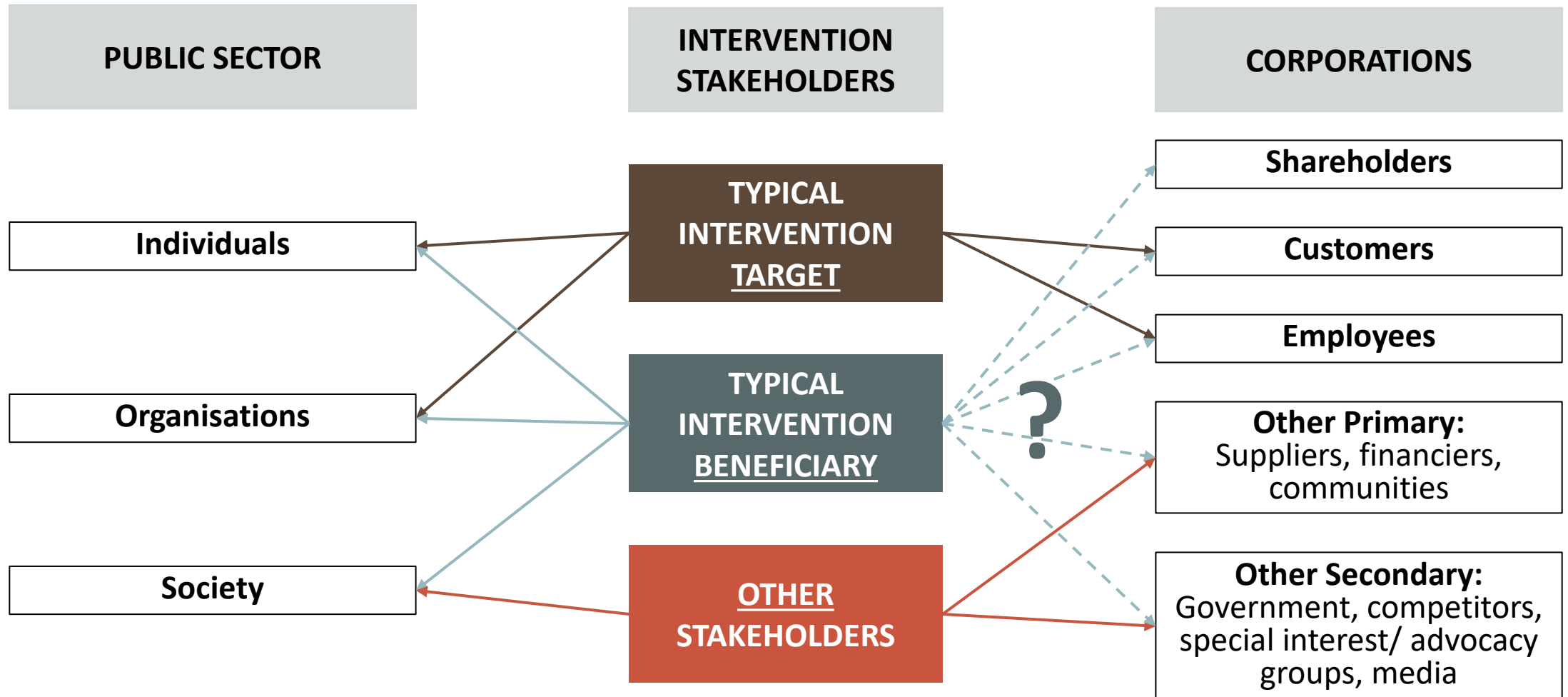
**FORGOOD** – Fairness, Openness, Respect, Goals, Opinions, Options, Delegation. A mnemonic ethics framework for applying behavioural interventions in the public sector (Lades & Delaney, 2019)

**Behaviourally-informed interventions** – interventions that are directly behavioural (e.g. nudges) as well as traditional interventions designed using behaviourally informed techniques.

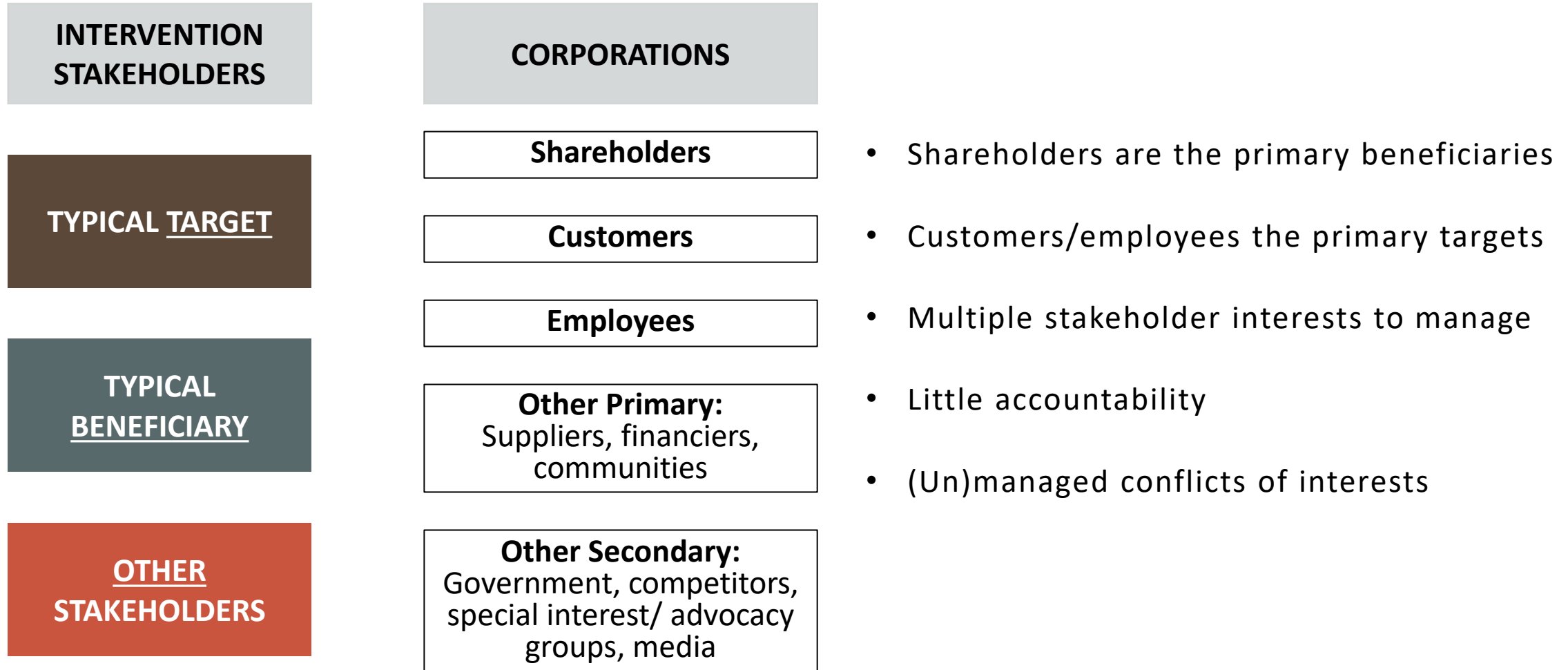
**Private Sector** – used as a synonym for private corporations in this context. Subset of the OECD definition of private sector where the definition includes “private corporations, households and non-profit institutions serving households” ([OECD](#), 2001)

**Public Sector** – “general government sector and public corporations including the central bank” ([OECD](#), 2014)

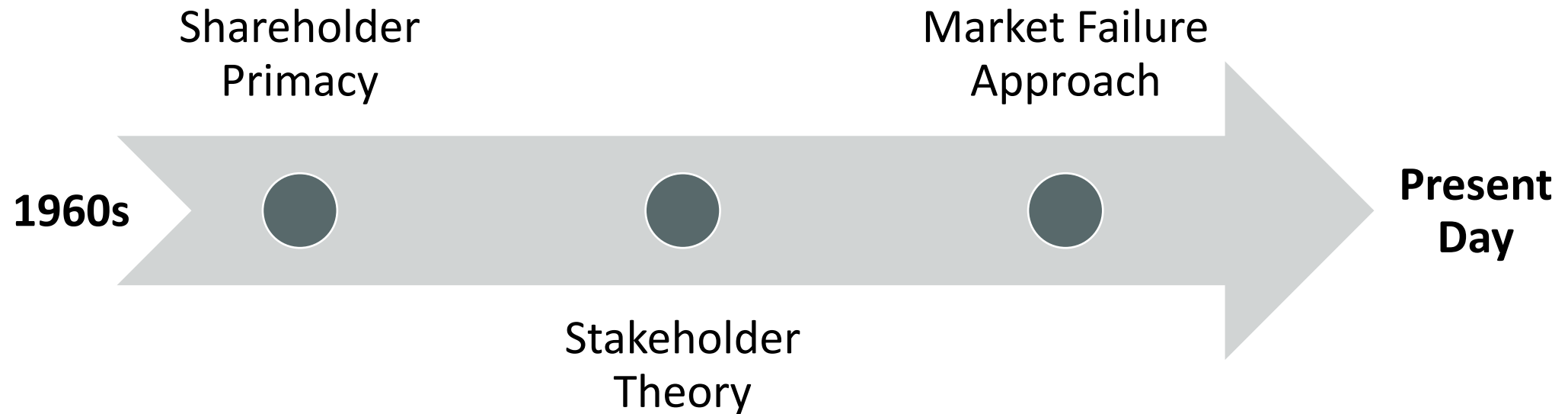
# Private sector ethical standards must account for the unique stakeholder needs of corporations



# Private sector ethical standards must account for the unique stakeholder needs of corporations



# Behavioural science in corporations can be evaluated through established business ethics frameworks



- Each model companies benefit from loyal, repeat, happy customers
- Each model assumes coherence with social norms (& avoidance of scandal)
- A practical framework should be beneficial under each model



# The Demand for Corporate Accountability is Strong

## Accountability to **Employees**

Systemic inequities are being challenged

- Diversity & Inclusion
- Equal Pay
- Unionisation

## Accountability to **Consumers**

Ethics (or perceived lack thereof) of private corporations, particularly “Big Tech”

- “Move fast and break things”
- Cambridge Analytica
- Dark Patterns
- Web 3.0
- Historical: smoking and cancer

## Accountability to **Society**

Society has historically paid for the negative spillovers created by business

- Sustainability & Climate Change
- Public Health – Obesity, opioid crisis
- Distribution of Wealth and Resources – government bailouts



- Global Reporting Initiative (GRI) – broader multi-stakeholder focussed reporting standards
- International Sustainability Standards Board (ISSB) – new investor focussed reporting standards
- B-Corp Certification

# Gold standard recommendations for interpreting FORGOOD in the Private Sector

## Gold Standard Recommendations for interpreting FORGOOD in the Private Sector

### Fairness

Conflicts should be disclosed where they cannot be avoided and an opt out provided where possible.

### Openness

Behavioural interventions should be disclosed to those who are targeted. Non-disclosure should be documented and justified.

### Respect

Autonomy and respect are prioritised. This includes but is not limited to ensuring that: Interventions are non-exploitative; Consent is actively sought and opt-out is easy; All data remains private and is deleted after use; Dark nudges (a.k.a. sludges) are not to be used .

### Goals

Any behavioural intervention must have clear benefits to those targeted by the intervention. Where interventions may potentially drive negative externalities for wider society or other stakeholders, the risks and mitigation strategies should be thought through and documented.

### Opinions

Does the behavioural intervention pass the test of personal opinion (including family and friends)? Consider independent review by those not involved in the intervention design.

### Options

Direct and indirect financial and non-financial harms are explicitly assessed and considered at a senior level within the company.

### Delegation

Regulatory focus asks, 'is it legal?' Best practice asks, 'is it ethical?' when determining whether choice architects have the right to implement a behavioural intervention. Businesses using behavioural science should employ professionally accredited behavioural scientists who have been trained to effectively and ethically implement behavioural interventions.

# Behavioural Science in corporations can be evaluated through established business ethics frameworks

Business ethics frameworks and behavioural intervention beneficiaries

TYPICAL INTERVENTION BENEFICIARY	Shareholder Primacy	Stakeholder Theory	Market Failure Approach
Shareholders	✓	✓	✓
Customers	✗	✓	✓
Employees	✗	✓	✓
Other Primary: Suppliers, financiers, communities	✗	✓	✓
Other Secondary: Government, competitors, special interest/ advocacy groups, media	✗	✓	✓

• Over-riding objective of maximising shareholder value

• Arguably outdated by today's expectations – ignores externalities

• Balance legitimate interests of all affected stakeholders

• Who are the stakeholders in the moral sense? <sup>1</sup>

• Adjudication problem

• Ethical corporations should not exploit market failures

• Moral principle-led rather than specifically prescriptive - allows adaptation and evolution

Friedman, M. (1962) *Capitalism and Freedom*. University of Chicago Press. p.133., and (1970) "The social responsibility of business is to increase its profits". *New York Times Magazine*, September 13: 32-33.  
 Freeman, R.E. (1984) *Strategic Management: A Stakeholder approach*. Pitman.  
 Heath, J. (2014) "A Market Failures Approach to Business Ethics", Chapter 1 in *Morality, Competition, and the Firm*. Oxford University Press

# Imperatives of the MFA can guide evaluation of behavioural interventions with competing stakeholder priorities

## Imperatives of the Market Failures Approach to Business Ethics

- 1. Minimise negative externalities**
- 2. Compete only through price and quality**
- 3. Reduce information asymmetries between firm and customers**
4. Do not exploit diffusion of ownership
5. Avoid erecting barriers to entry
6. Do not use cross-subsidisation to eliminate competitors
7. Do not oppose regulation aimed at correcting market imperfections
8. Do not seek tariffs or other protectionist measures
9. Treat price levels as exogenously determined
- 10. Do not engage in opportunistic behaviour towards customers or other firms**

# References

- Friedman, M. (1962) Capitalism and Freedom. University of Chicago Press. p.133., and (1970) "The social responsibility of business is to increase its profits". New York Times Magazine, September 13: 32-33.*
- Freeman, R.E.(1984) Strategic Management: A Stakeholder approach. Pitman.*
- Freeman, R., Harrison, H., Wicks, A., Parmar, B., & S.,de Colle (2010) Stakeholder Theory: The State of the Art. Cambridge University Press.*
- Donaldson, T. (1989) The Ethics of International Business. Oxford University Press. p.45*
- Phillips, R. (1997) "Stakeholder theory and a principle of fairness". Business Ethics Quarterly, 7 (1) p.51*
- Phillips, R. (1997) "Stakeholder theory and a principle of fairness". Business Ethics Quarterly, 7 (1) p.53*
- Heath, J. (2014) "A Market Failures Approach to Business Ethics", Chapter 1 in Morality, Competition, and the Firm. Oxford University Press*