

DO LEADERS AFFECT ETHICAL CONDUCT?

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Abstract

We study whether leaders influence the unethical conduct of followers. To avoid selection issues present in natural environments, we use an experiment in which we create simple laboratory firms and assign leadership roles at random. In our first experiment, firms engage in competition and unethical behavior enhances firm earnings but produces a negative externality for all firms. We vary, by treatment, two instruments through which leaders can influence follower conduct—prominent statements to the group and the allocation of monetary incentives. We find that leaders influence the ethical conduct of followers both through their statements and through the use of incentives. Moreover, leaders who are likely to have acted dishonestly in a preliminary stage of the experiment are more likely to employ mechanisms to encourage dishonesty among followers. As a result, firms randomly assigned one of these unethical leaders are more likely to engage in misreporting. A second experiment finds that the above relationships are present, though weaker, when firms do not engage in direct competition. (JEL: C92, D73, M14)

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