Appendix: Supporting Materials

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A Multi-method Approach to Identifying Norms and Normative Expectations within a Corporate Hierarchy: Evidence from the Financial Services Industry

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1. Experiment design details

1.1 Payments and participation rate

Our sample consists of 54 subjects in total (9 are corporate leaders and 45 are financial advisers) who are largely male and white, between the ages of 36-40 (financial advisers) and 46-50 (corporate leaders). Sessions were conducted at several corporate offices and the average length of each session was 2 hours. All experimental instructions were read aloud. The initial show-up fee was $70, and the payment from the advice game (an average of $100) raised the expected value for 32 correct matches to $70 + $100 + (.25 x $320) = $250, with the maximum possible individual payout of $540. The actual average payoff for each subject was $195.00.

1.2 Design overview

Below is a table that gives an overview of the experiment and its modules. The experimental design consists of three modules. The first module elicits subjects' beliefs for three different vignettes (cash incentive clash, fiduciary responsibility, whistle blowing), ask subjects their beliefs about the ethical norms held by two different reference groups (financial advisers and corporate leaders) and it also asks them for their own personal ethical opinion. In the second module subjects play the advice game, and in the third module we administer a standard demographic questionnaire along with questions about such items as job satisfaction and intention to leave. Table S1 gives an overview of the modules. Table S2 gives a more detailed description of the first module. Table S3 gives the payoffs for the advice game in the second module. Table S4 is an excerpt from one of the forms that subjects filled out in the coordination game in the first module.

Table S1: Overview of the Experimental Design

← Order subjects saw modules and performed tasks →		
Module 1 Ethical Norm Elicitation	Module 2 Advice Game	Module 3 Demographic Survey
$ Incentives	$ Incentives	

Table S2: Structure of Module 1

<table>
<tr><td colspan="9">Module 1
Ethical Norm Elicitation
Order subjects saw dilemmas and performed tasks</td></tr>
<tr><td colspan="3">Cash Incentive Clash</td><td colspan="3">Fiduciary Dilemma</td><td colspan="3">Whistle blowing</td></tr>
<tr><td>Target: Financial Adviser</td><td>Target: Corproate Leader</td><td rowspan="3">Personal Opinion</td><td>Target: Financial Adviser</td><td>Target: Corproate Leader</td><td rowspan="3">Personal Opinion</td><td>Target: Financial Adviser</td><td>Target: Corproate Leader</td><td rowspan="3">Personal Opinion</td></tr>
<tr><td colspan="2">Coordinate appropriateness ratings</td><td colspan="2">Coordinate appropriateness ratings</td><td colspan="2">Coordinate appropriateness ratings</td></tr>
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Incentives</td></tr>
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Table S3: Module 2 Advice Game Payoffs

	You get	Your counterpart gets
Option A:	$150	$50
Option B:	$50	$150

Table S4: Example of the Response Reporting Form Used in the Coordination Game Experiment.

Tanya's choices	*Very ethically Inappropriate*	*Somewhat ethically inappropriate*	*Somewhat ethically appropriate*	*Very ethically appropriate*	*(Study Use only) Response matches counterpart?*
Tanya nods, but does not say anything to David. She does not report him to a compliance officer.	X				Y N
Tanya tells David that she doesn't think that initialing for them was the right thing to do. She does not report him to a compliance officer.		X			Y N

1.3 The vignettes subjects read about

In the first module, subjects read about three different scenarios, or vignettes. Below we display the text of those vignettes, along with the actions that subjects were evaluating in the coordination game and personal opinion elicitation.

Vignette: Whistle blowing on a Peer

> **Text:** "David and Tanya are both financial advisers who sometimes talk with each other. David tells Tanya that he has two clients, a husband and wife, who decided to implement his recommendations. As a result they are purchasing several financial products: life insurance, disability income, an IRA with mutual funds, and a cash management mutual fund. David has been working with these clients for several months. There have been tensions because the clients felt that the paperwork was not moving fast enough, but the paperwork for these purchases had been completed and the $400,000 check had been given to David. However, before submitting the transactions, David noticed that both the clients failed to put their initials on one line. He knew that the clients had been bothered by all the paper work, and that it was important to them that the transactions be completed before their departure the next day for vacation. David also knew that the business would not be accepted by the home office without the initials. When Tanya asks David what he did, he tells her that the he was afraid the clients would walk away if he bothered them again, so he initialed for both of them."

Since Tanya's choices are detailed in the main body of the text, they are not repeated here.

Vignette: Cash Incentive Clash

Text: "Roger is a financial advisor and he and his client have just completed an extensive “fact finding” and “goal setting” process. The client’s goals, in priority order are 1) high liquidity, and 2) minimal risk. The client has no concern about taxes because he is not in a high tax bracket. Based on the client’s stated goals and current situation, Roger concludes that the client needs a fixed income asset which exposes the client to little risk. He has different products to offer in this category and they each vary in how perfectly the product matches the client’s goals and concerns. The commission Roger receives will depend on which product the client chooses. The client has said, 'I will do whatever you recommend.'”

Roger’s choices (re-arranged from order used to order of increasing ethical appropriateness)
1. Roger can offer a fixed annuity with a 7 year diminishing surrender penalty that pays a large commission.
2. Roger can offer a bond fund that pays a small commission.
3. Roger can offer a certificate of deposit with a 1 year maturity date and an interest rate of 2.05% that pays a very small commission.
4. Roger can offer a cash management account which pays no commission.

Vignette: Fiduciary Responsibility

Text: "Anne is a financial advisor trying to build up her book of business. The client is an inexperienced investor who is 65 years old and a former high school teacher. He just received his lump sum pension payout and he has no other significant assets to invest. His main priority is retirement income. His teacher's retirement plan substituted for social security under state law, so returns from investment of his pension payout are his primary retirement income source. The client is consulting the firm because his brother is a long-time customer, but he has been convinced by his own on-line research that a real estate investment trust is the only thing he wants to invest in, because it is going to “take off next year”. Anne starts by consulting with him about his goals and preferences."

Anne’s choices **(re-arranged from order used to order of increasing ethical appropriateness)**
1. The client says that he wants a real estate investment trust. Anne reasons that it is the client’s decision. Anne places the real estate investment trust trade.
2. Anne cautions that a portfolio needs to be diversified. When the client says that he wants a real estate investment trust, she reasons that it is the client’s decision. Anne places real estate investment trust trade.
3. Anne recommends a specific diversified portfolio that includes a real estate component. When the client says that he wants a real estate investment trust, Anne reasons that it’s the client’s decision and places the real estate investment trust trade.
4. Anne recommends a specific diversified portfolio that includes a real estate component. When the client declines, Anne tells the client that she will not place the real estate investment trust trade unless the client promises to think about her other recommendations.
5. Anne recommends a specific diversified portfolio that includes a real estate component. When the client declines, Anne asks him to sign a declaration acknowledging her recommendations and the risks of his choice. Then she places the real estate investment trust trade.
6. Anne recommends a specific diversified portfolio that includes a real estate component. When the client declines, Anne tells the client that she will not place the real estate investment trust trade.

2. Supporting analysis

2.1 Tests for the equality of standard deviations between extreme and ambiguous actions

Table 3 in the paper shows that adviser alignment is indeed greater for the more extreme actions (1 and 6), as compared to the less extreme actions in between (Actions 2 through 4). The modal evaluation for financial advisers is "very inappropriate" for Action 1 and "very appropriate" for Action 6, the two extreme action choices. But the mode is only "inappropriate" or "appropriate" for Actions 2 through 4. The distributions show that advisers as a group have less agreement and perceive a measure of ethical ambiguity with respect to these choices, a perception that is not shared by corporate leaders. In Table S5 we present a formal comparison of the variances of extreme responses with those of the more ambiguous ones. This comparison also shows a pattern consistent with Hypothesis 2.

Table S5: Tests of the Equality of Standard Deviations between the Evaluations of Extreme Actions and the Evaluations of More Ambiguous Actions in Whistle Blowing.

(These tests conditional on the selected assignment of numerical values to evaluation rankings.)			
FA's matching FA's		CL's matching CL's	
Test StDv #1 < StDv #3	p = 0.0025	Test StDv #1 < StDv #3	p = 0.0000
Test StDv #1 < StDv #4	p = 0.0001	Test StDv #1 < StDv #4	p = 0.0000
Test StDv #6 < StDv #3	p = 0.0086	Test StDv #6 < StDv #3	p = 0.0000
Test StDv #6 < StDv #4	p = 0.0005	Test StDv #6 < StDv #4	p = 0.0000

3. Supporting figures

3.1 Figures showing ratings for the fiduciary responsibility vignette

Section 3 presents figures for the fiduciary dilemma that are similar to those presented in the text for the whistle blowing vignette. These figures show that actual adviser norms and leaders' desired norms for adviser behavior are misaligned as to the intensity of the ethical evaluation for two non-extreme actions (one *ex ante* inappropriate and one *ex ante* appropriate; Figure S1). However, when we examine the pattern of beliefs, we find that adviser beliefs regarding the desired norms are not aligned with leadership expectations (Figure S2). This pattern suggests that leaders have failed to effectively communicate their ethical expectations for these two actions; consistent with Hypothesis (5) we diagnose this as a miscommunication. However, leaders' beliefs about adviser norms *are* aligned, suggesting that leaders already understand that there is a communication breakdown (Figure S3).

Figure S1: Actual Adviser Norms and Leaders'Desired Norms in the Fiduciary Responsibility Scenario (mean evaluations with standard errors)

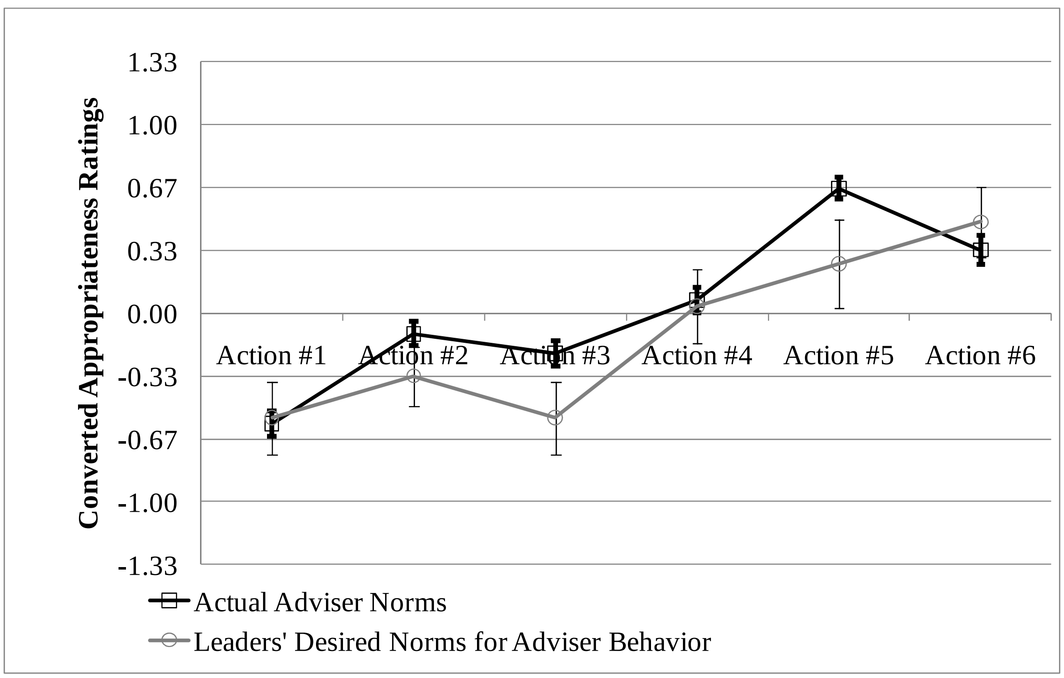


Figure S2: Adviser Beliefs about Leaders' Desired Norms and Leaders' Desired Norms in the Fiduciary Responsibility Scenario (mean evaluations with standard errors)

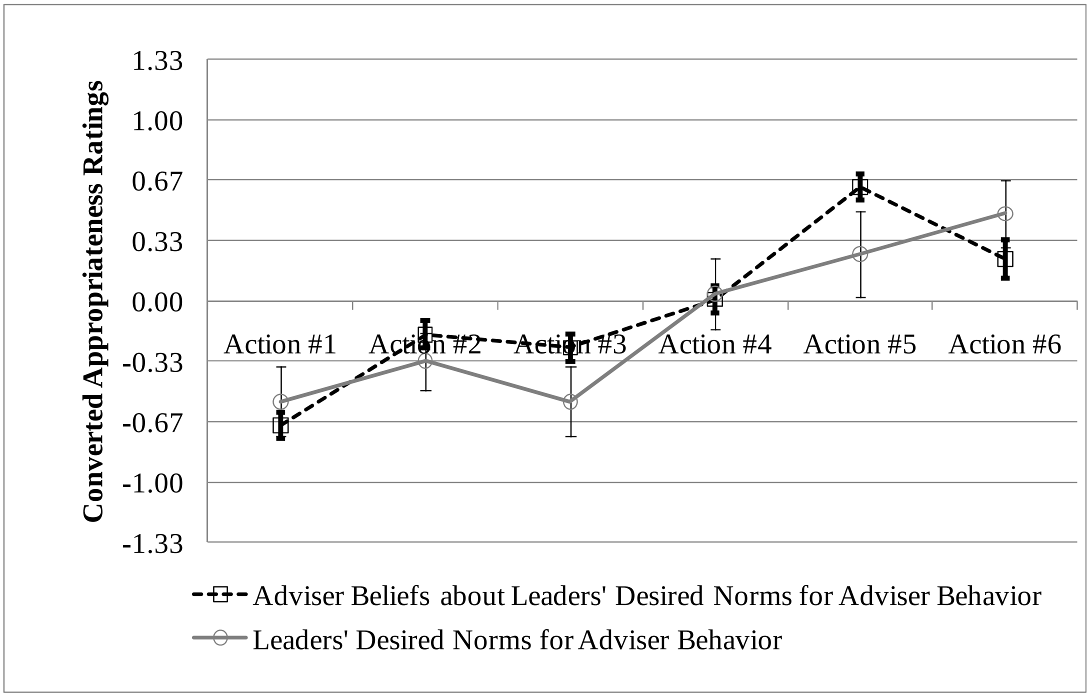
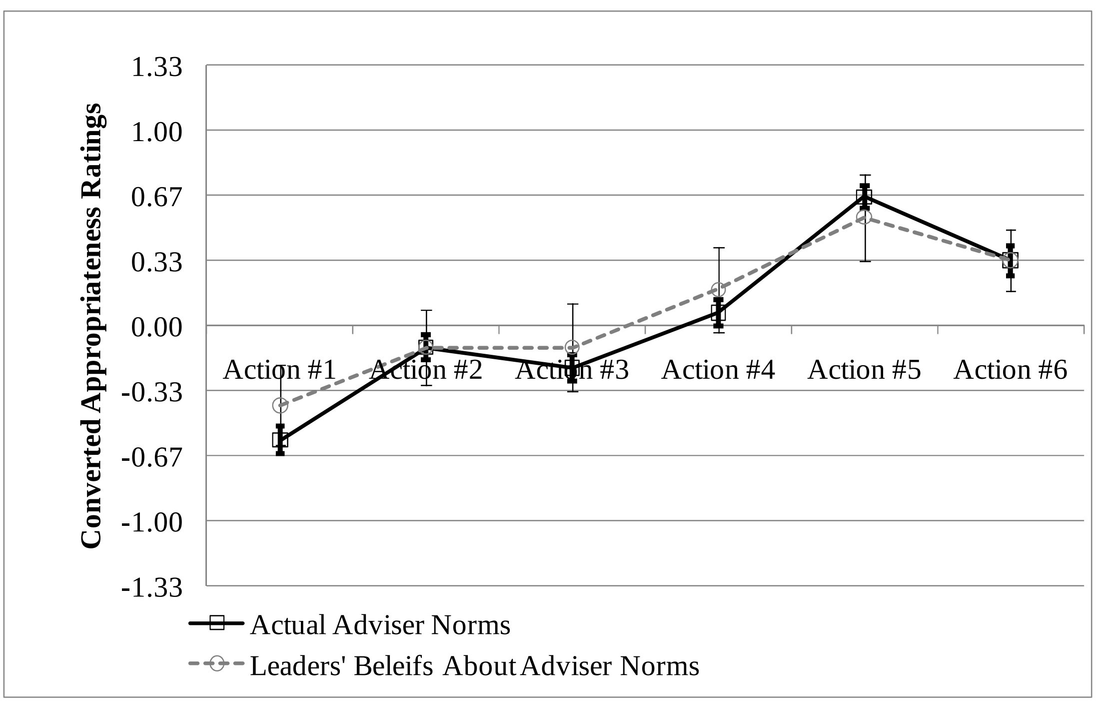


Figure S3: Actual Adviser Norms and Leaders' Beliefs About Adviser Norms in the Fiduciary Responsibility Scenario (mean evaluations with standard errors)



3.2 Figures showing ratings for the cash incentives clash vignette

These findings from the whistle blowing and fiduciary dilemma vignettes are further complemented by results from the financial incentive clash vignette. In this vignette the client desires a liquid and safe investment with a secondary concern for return, and the adviser faces a trade off among assets providing these characteristics between the level of compensation to the adviser and the net return to the client. In this context actual adviser norms and leaders' desired norms are fully aligned (Figure S4), with the exception that corporate leaders are actually a bit too pessimistic about the norms advisers have with regard to several of the more ethically inappropriate action choices (Figure S5).

Figure S4: Actual Adviser Norms and Leaders' Desired Norms in the Financial Incentive Clash Scenario (mean evaluations with standard errors)

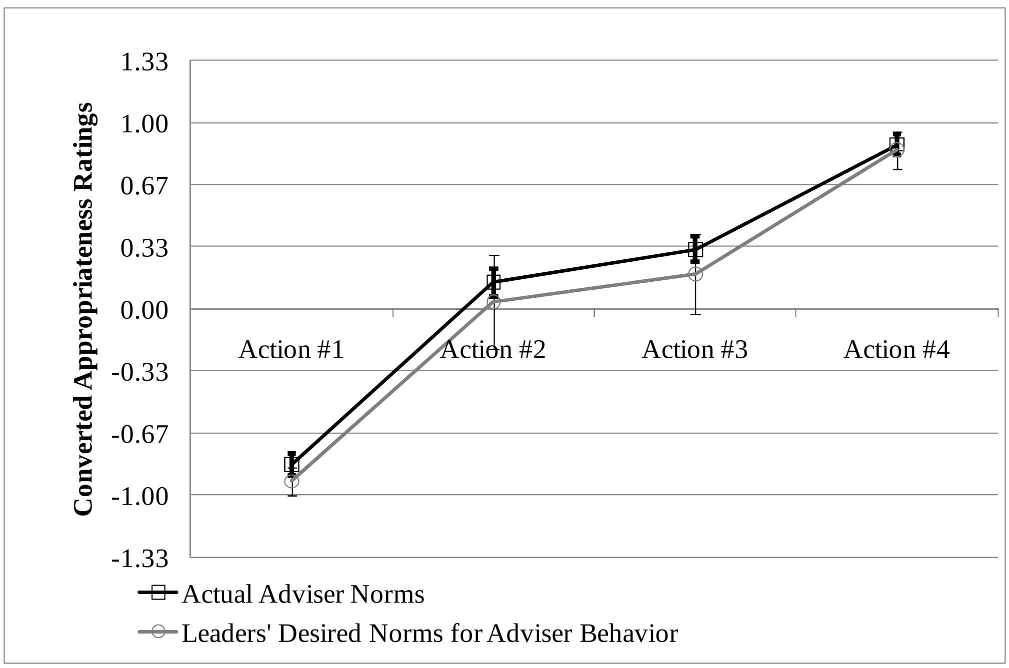


Figure S5: Leaders' Desired Norms and their Beliefs about Actual Norms in the Financial Incentive Clash Scenario (mean evaluations with standard errors)