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Businesses FORGOOD:

**Developing a Framework for Ethical
Behavioural Science in Corporations**

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1 INTRODUCTION

Applied behavioural science is an emerging discipline significantly popularised fifteen years ago by the publication of ‘Nudge’ (Thaler & Sunstein, 2008), which birthed a growing range of policy units worldwide (OECD, 2022). While the FORGOOD framework provides guidance for addressing behavioural science ethics in the public sector and academia (Lades & Delaney, 2020), less attention has been given to the private sector¹. The growing use of behavioural science in corporations has outpaced the development of accompanying professional standards and government oversight. This paper therefore considers the interpretation of FORGOOD for the private sector.

We will review the literature around the ethics of behavioural interventions and how it relates to models of business ethics before proposing an adapted framework for the private sector. Applied examples are then explored and limitations and other considerations are outlined. Our aim is to further the development of an applied behavioural science profession and community of practitioners who are universally aligned to practicing ethically and with integrity. We invite further feedback to develop and take forward these proposals.

2 LITERATURE REVIEW

2.1 Background

Behavioural science literature tends to classify the cognitive processing that drives decision-making, into being either Type 1 or Type 2, under dual processing theory (Evans & Stanovich, 2008, 2013) popularised in ‘Thinking fast and slow’ (Kahneman, 2011). Using this framework, Type 1 decisions are instinctive, unconscious and quick, while Type 2 decisions are deliberative, rational and slow. While behavioural science interventions can target either type, the use of choice architecture often uses common heuristics and biases to target an individual’s instinctual type 1 thinking (Thaler & Sunstein, 2008; Tversky & Kahneman, 1974).

Although behavioural interventions can drive better outcomes for individuals while still providing freedom of choice, the power to guide the behaviour of others also confers the power to manipulate, prompting many behavioural scientists and philosophers to reflect on the ethics of nudging. Consensus has emerged that while each intervention needs to be considered on a case-by-case basis, particular care should be taken to avoid undermining the welfare, dignity, and autonomy of those targeted by an intervention, particularly where nudges operate at an unconscious or instinctive level (Sunstein, 2015, Lades & Delaney, 2020, Busch et al., 2021). The literature on this topic was synthesised and

¹ Please note, we use a narrower but commonly accepted definition of ‘private sector’ in this paper that is limited to private corporations. In contrast with the official OECD definition, we do not include households or non-profit institutions serving households within this definition (OECD, 2001).

transformed into a practical framework to guide public policy intervention design, using the mnemonic ‘FORGOOD’ (Lades & Delaney, 2020), defined in appendix 7.1. While ‘FORGOOD’ has been widely adopted and referenced in academia and the public sector, it is difficult to ascertain how widespread such ethical considerations are in the private sector given the lack of regulation rendering such codes voluntary.

Proponents of the free market may argue that restrictions are not needed in the private sector where customers exercise their consent in dollars and that seeking to influence customers’ behaviour is the well-established role of marketing and advertising². However, consent can only be given if it is free and informed, so this defence disappears where there is no disclosure (Eyal, 2019). The power of our automatic reflexes and emotions on decision-making is such that even with disclosure, Type 1 interventions may undermine our ability to give ‘free’ consent even if it is informed (Evans, 2007; Stanovich & West, 2000). By definition, nudges should be beneficial for those on the receiving end, as judged by themselves (Sunstein, 2015). However, the cost of nudging by the private sector is only likely to be undertaken for the prospect of profit, which may create a conflict of interest. Finally, it should be noted that use of behavioural science in the context of technology can have significantly greater impact, a concept described as ‘hypernudging’ (Yamazaki, 2020).

2.2 The Need for Private Sector Behavioural Science Ethical Standards

Commercial use of behavioural science offers the prospect of operationalising tested insights to change customer behaviour. Meanwhile, developments in technology have exponentially increased their potential impact (Yamazaki, 2020). The explosion of available data provided by the widespread adoption of the internet and mobile technology has enriched the basis for customer insights (Zuboff, 2019). The use of algorithms and automation enables personalised insights to be deployed at scale – a genuinely new opportunity for profit-seeking enterprises – particularly early adopters - to influence their customers for competitive advantage.

When harnessed effectively this offers huge benefits – multiple studies have shown that improved customer experience and high customer satisfaction confers sustainable competitive advantage (Rajgopal et al., 2000; Pei et al., 2020). The size of the prize is significant – not only for the corporations themselves but also their customers who display high levels of satisfaction and loyalty.

When behavioural science is used poorly however, significant financial and reputational damage can be caused to organisations and their stakeholders. Cambridge Analytica, whose use of Facebook profile information without consent to target paid-for interventions, is one such well-publicised example. The result was ruinous for Cambridge Analytica, a company which no longer exists and whose former CEO has been prohibited from being a company director for 7 years (Davies, 2020). It has also proved costly

² www.nudgestock.com

for Facebook (now Meta), which experienced both significant reputational damage as well as immediately quantifiable financial costs in the form of a \$5 billion fine for failing to protect user data.³ Such risks posed by the misuse of behavioural science highlights the necessity of thoughtful attention and an ethical framework through which to guide behavioural interventions designed for commercial value.

Perhaps even more significantly, without established professional standards, the unethical use of applied behavioural science by one organisation has the potential to have wide reaching consequences for the entire nascent profession. Even those operating in academia, or the public sector could be affected by public backlash to corporate behavioural intervention scandals. Ringfencing the wider discipline from individual instances of unethical use may be achieved through the development and adoption of ethical standards of practice by industry bodies such as the Global Association of Applied Behavioural Scientists (GAABS). An advantage of such ethical standards over explicit regulation is its preventative quality by guiding behaviour in advance and in new contexts. This is particularly important given the ability of technology to vastly magnify the impact of any interventions.

2.3 Public vs Private Sector Stakeholders and Ethical Considerations

In general, we posit that behavioural intervention stakeholders can be understood as three non-mutually exclusive groups. ‘Targets’ are stakeholders whose behaviour a choice architect seeks to directly influence, ‘beneficiaries’ are those who benefit from the intervention’s success and ‘other’ stakeholders are those who may be impacted by the intervention but are not directly intended targets or beneficiaries. Distinct differences between the public and private sector in terms of who comprises these groups necessitate the corresponding development of a tailored ethics framework.

Corporations have a vastly more complicated stakeholder landscape and people can have significantly different interpretations of who they believe beneficiaries should be, depending on their underlying business ethics philosophy. Notably, management typically have fiduciary duties to act in the best interests of owners which can influence what is perceived to be ethical behaviour. This can lead to the need to make trade-offs between the competing interests of shareholders, customers, and employees, as well as other primary⁴ and secondary⁵ stakeholders who may be impacted by the behavioural interventions (Freeman et al., 2012).

2.4 Intersection with General Business Ethics Frameworks

Any ethical framework for behavioural science in the private sector will need to be informed by a knowledge of the established business ethics frameworks that have been developed within the management literature over the course of the past fifty years. This interdisciplinary approach provides

³ <https://www.amnesty.org/en/latest/news/2019/07/the-great-hack-facebook-cambridge-analytica/>

⁴ E.g. suppliers, financiers, communities

⁵ E.g. government, competitors, special interest/ advocacy groups, media

epistemic rigour and promotes the development of a lingua franca between behavioural scientists and the private sector organisations within which they work.

Identifying the prevailing business ethics framework of a company is important for understanding who a company views as their beneficiary which has implications for the design and implementation of behavioural interventions. Although each of the major business ethics frameworks explored below are a product of their time, an argument can also be made that modern readings of each will still largely support a consistent interpretation of what constitutes ethical behavioural science interventions, even if underlying motives may differ. The demand for corporate accountability by the general public as well as investors has been growing. Increasingly, companies are expected to behave ethically and consider the consequences of their actions not only as it relates to their shareholders, but also to their employees, consumers, and broader society including the environment (Diez-Busto et al., 2021; Global Reporting Initiative, 2022).

The ‘shareholder primacy’ model famously advocated by Milton Friedman in the 1960s endorses the maximisation of shareholder value as the over-riding objective of corporations over any other stakeholders (Friedman, 1962, 1970). While a direct translation of the original doctrine may suggest that this approach is outdated by today’s societal expectations, such interpretations overlook the fact that societal expectations can have a long-term feedback loop which can ultimately impact on shareholder returns.

Reactance against shareholder primacy led to the development of ‘stakeholder theory’, which sought to balance the legitimate interests of all affected stakeholders (Freeman, 2015). Given societal expectations today, it is arguable that ‘shareholder primacy’ and ‘stakeholder theory’ are gravitating towards greater consensus in what is perceived to be ethical behaviour, even if they are driven by differing motivations. While ‘shareholder primacy’ is ultimately driven by the best interests of the shareholder, two key criticisms have been levelled at ‘stakeholder theory’. Firstly, it is seen to cast a wide net on who should be interpreted as a stakeholder of the company in a moral sense. Secondly, it lacks a defined approach for how to adjudicate between the interests of different stakeholders from a practical point of view (Donaldson, 1989).

The relatively recent ‘Market Failure Approach’ (MFA) to business ethics build upon the weaknesses of stakeholder theory and presents an alternative approach for interpreting what constitutes ethical behavioural science within the private sector (Heath, 2014). The MFA suggests that ethical corporations should behave as though market conditions are perfectly competitive, even though they may not be. It requires companies to avoid exploiting potential market failures in the way they conduct business. While such an approach to ethics can raise scepticism given the onus placed on corporations to act ethically by their own volition, adhering to the MFA can also be perceived to be consistent with the best long-term interests of shareholders. As the MFA is moral principle-led rather than explicitly

prescriptive, it allows for adaptation and evolution. This is important and better suited to today's rapidly evolving business environment where legislation may not otherwise be able to keep pace.

3 PROPOSED ADAPTATION OF 'FORGOOD' FOR APPLIED BEHAVIOURAL SCIENCE IN THE PRIVATE SECTOR

Table 1 summarises the proposed adaptation of FORGOOD for the corporate sector. The FORGOOD framework invites each planned intervention to be assessed against the criteria of Fairness, Openness, Respect, Goals, Opinions, Options and Delegation, with questions to guide this assessment from an ethical perspective (Lades & Delaney, 2020). We propose a baseline interpretation of FORGOOD for the private sector and outline an even more aspirational 'gold standard' that could be adopted by companies wishing to demonstrate ethical leadership. This references the Market Failures Approach to general business ethics in recognition of the potential inequitable distribution of power and benefit to economic stakeholders. This proposal can also be adopted by practitioners should behavioural science industry bodies seek to establish a set of professional standards.

The questions raised about the planned intervention by our adapted baseline considerations offers a guide for thinking through the ethical implications of intervention design and a worked example of how this could be completed for a hypothetical company is provided in the appendix for illustrative purposes. Certain questions are binary while others are more nuanced. In addressing these questions, corporations can develop mitigations and safeguards to improve consumer protection in their planned intervention.

Although 'gold standard' recommendations may appear to be highly aspirational, we note that the functioning of the internet and access to user data may change significantly under Web 3.0. While it is not possible to be definitive about the implications at this stage, the use of blockchain technology in Web 3.0 is expected to have a decentralising emphasis, handing power to consumers, and better protecting data (Kalafatis and Nesbitt, 2022). In turn, this could have implications for norms around data and personalisation, with corporate use shifting from a perceived right to a privilege. Behavioural scientists will therefore need to be careful to keep step with societal expectations in order to continue to enjoy public consent for nudges and interventions. See Appendix 7.2 for practical applications.

Table 1: FORGOOD for Private Corporations

FORGOOD	Baseline Considerations	Gold Standard Recommendations
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?	Conflicts should be disclosed and managed where they cannot be avoided. An opt out should be provided where possible.
Openness	Is the behavioural intervention disclosed or evident to the target?	Behavioural interventions should be disclosed to those who are targeted. Non-disclosure should be documented and justified.
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?	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 (including sludges) are not to be used
Goals	Does the behavioural intervention seek to improve outcomes for targets, beneficiaries and/or other relevant stakeholders of the company?	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 'front page test' of public opinion?	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	How does the financial and non-financial cost/benefit assessment compare to other options?	Direct and indirect financial and non-financial harms are explicitly assessed at a senior level within the company and documented.
Delegation	Does the company have the regulatory right and ability to implement the behavioural intervention?	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 implement behavioural interventions effectively and ethically.

4 LIMITATIONS AND PRACTICAL CONSIDERATIONS

We note several limitations to consider when evaluating the proposal of an ethical framework guiding private sector behavioural science use.

Firstly, this proposal requires feedback from commercial companies as to its practicality and relevance, to test whether the proposal strikes the right balance between normative ideal of academia and descriptive realities of private sector competition. Although implementing an ethical review can be perceived as adding a cost or time burden, an ethically rigorous intervention design is likely to have advantages in terms of scalability and sustainability. We hope that this action pays for itself in a commercially competitive environment, and that choosing to put customers' interests above short-term profit will build customer loyalty.

Secondly, there have been issues of replicability in behavioural science and questions over how effective nudges prove to be over the long-term. Moving to a standard in which targets typically know they are subject to a nudge may reduce its efficacy. The literature is inconclusive, but the possibility should be acknowledged (Loewenstein et al., 2015).

Additionally, some may question whether an explicit ethical framework for behavioural science is necessary or whether it is simply a natural extension of marketing and the ability to understand and respond to customer needs. Such an interpretation would suggest that using behavioural science techniques are a part of the natural blood sports of market forces which will ultimately find an equilibrium of acceptable behaviour. Counter to this interpretation, however, is the fact that behavioural science use is anticipated to be directly impacted by incoming technology and AI regulations. Behavioural science will likely be caught indirectly by the planned EU AI Act, which will require disclosure where AI interacts with humans and introduces categories of riskiness.⁶ AI that uses emotional recognition technology is identified as particularly high risk. Additionally, legislation is also being prepared in the US, so companies may find it more efficient to develop workable self-regulation via an ethical framework such as this present proposal, rather than meeting piecemeal regulatory requirements.

Finally, we have not addressed the practical issues of adoption and oversight. We propose that such consideration should follow any development of consensus around a private sector ethical framework.

5 CONCLUSION

This white paper articulates the need for a private sector specific applied behavioural science ethics framework. By adapting and interpreting FORGOOD for a private sector context, it provides some

⁶ <https://artificialintelligenceact.eu/>

initial direction and a starting point for industry discussion on how to protect the integrity and professionalism of applied behavioural science. Our hope is that businesses will start reflecting more on how to practice behavioural science in an ethical and sustainable way, while practitioners will seek greater alignment with professional standards and ethics. The long-term goal is to build strong public confidence in behavioural science and its responsible use.

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7 APPENDICES

7.1 Definitions

Term	Definition
Behaviourally informed intervention	Interventions that are directly behavioural (e.g. nudges) as well as traditional interventions designed using behaviourally informed techniques.
FORGOOD	Fairness, Openness, Respect, Goals, Opinions, Options, Delegation. A mnemonic ethics framework for applying behavioural interventions in the public sector (Lades & Delaney, 2020).
Nudge	“Any aspect of the choice architecture that alters people’s behaviour in a predictable way without forbidding any options or significantly changing their economic incentives” (Samson, 2022; Thaler & Sunstein, 2021).
Dark Nudge	Dark nudges (also known as dark patterns, nudges for evil, nudge-for-bad, deceptive design patterns) are nudges which have been designed to benefit a third party to the detriment of the individuals whose behaviour the intervention aims to influence. They typically drive behavioural outcomes that are counter to the true preferences of the targeted individuals (Mathur et al., 2019; Samson, 2022; Thaler & Sunstein, 2021)
Sludge	“Any aspect of choice architecture consisting of friction that makes it harder for people to obtain an outcome that will make them better off” (Thaler & Sunstein, 2021). Sludges can be a dark nudge depending on the intentionality of the choice architect.
Private Sector	Used synonymously for private corporations within this white paper. 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	OECD definition used: “general government sector and public corporations including the central bank” (OECD, 2014)

7.2 Practical Applications

7.2.1 Savings App Case Study

FORGOOD		ASSESSMENT
Fairness	Our actions are fair because they enable customers to achieve their goals	✓
Openness	Customers select parameters giving full disclosure to the target?	✓
Respect	Customers make free and informed consent preserving their freedom of choice. This & a goal of improved financial wellbeing maintains their autonomy & dignity Privacy protocols are required to protect data & security	MITIGATION
Goals	The intervention assists customers achieve their goal of saving more, assists shareholders goals of growing the company and regulators goals of more public saving	✓
Opinions	It passes the ‘ front page test’ of public opinion	✓
Options	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
Delegation	We have the technical ability and can apply for regulatory approval	✓

7.2.2 Other Examples

Adapting the FORGOOD framework for the private sector reveals risks of conflicts of interest, particularly across the dimensions of ‘fairness’, ‘goals’, and ‘options’. An example-based exploration of each of these parameters is outlined below, however, it is noted that these are not prescriptive solutions and should not diminish the importance of alternate forms of regulatory intervention which may still be required (Chater & Loewenstein, 2022). As is the case with much of applied behavioural science, the decisions made must be context dependent and be ready to adapt and evolve with changing needs.

‘Fairness’ may involve balancing between shareholder profit and customer wellbeing. This can arise where addictive behaviours are positively correlated with financial profit, for instance, social media usage and gambling. From an MFA perspective, this presents a potential issue of opportunistic behaviour towards customers. A potential behavioural intervention that could help resolve this conflict in line with MFA principles would be to provide customers with an option to add their own circuit break within their use of a product.

‘Goals’ may involve balancing the desire to gain customer information with whether the customer’s true preferences are being respected. This can occur if an overload of information is used to influence users to share personal information (for example, to support product development or advertising). This presents the MFA issue of imperfect information and in this context, companies can reduce information asymmetry by providing a transparent summary of the main terms and conditions of service when seeking consent and making it easy for individuals to opt-out. Additionally, companies should seek to ensure that the intervention itself also strives to achieve a benefit for the intervention target.

‘Options’ may involve balancing between the financial and non-financial costs and benefits of a behavioural intervention when compared to alternative means to achieve an outcome. For companies that sell physical products online, this may involve deciding between providing an environmental offset as standard or as the encouraged option for an additional cost when shipping products. From an MFA perspective, this presents the potential issue of negative externalities. Here, it would be recommended that companies absorb any residual environmental impact as a cost of doing business.