Ethics, innovation and Ashley Madison

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Can unethical behavior at the individual level predict wrongdoing at the corporate level?

That’s a question William Grieser, assistant professor of finance at Tulane University’s A. B. Freeman School of Business, sought to answer with data from an unlikely source: Ashley Madison, an online dating service that connects individuals seeking extramarital affairs.



William Grieser found that firms with higher rates of Ashley Madison members were more likely to be the subject of SEC enforcement actions but also more likely to be innovative.

As a corporate finance scholar, Grieser studies corporate culture and the ethical environment of firms, a notoriously difficult topic for researchers to investigate because employees who engage in unethical behavior are also likely to deny it on research surveys.

Following the release by hackers of AshleyMadison.com user account information in August 2015, Grieser learned that 47,000 active users of the site had registered using their corporate email accounts.

"A light bulb kind of went off," Grieser recalls. "I thought it would be interesting to use this as a measure for corporate culture and ethics and see if it predicts ethical outcomes. It was just kind of a hunch."

Grieser's hunch was on the mark. After analyzing the data, he found that firms with higher rates of Ashley Madison memberships were more likely to be the subject of SEC enforcement actions for accounting misstatements and more likely to have lower ethics ratings by external analysts. He also found evidence that those firms engaged in tax avoidance and sought tax havens.

But having Ashley Madison members for employees wasn’t all bad. Grieser also found that firms with more Ashley Madison users tended to be more innovative in terms of R&D intensity and number of successful patents, a finding that aligns with previous research that suggests individuals who feel less constrained by ethics tend to be more creative.

Grieser says some firms may tolerate a lax ethical culture because that's the type of environment that the most creative, innovative people gravitate towards.

“We’re not saying that lack of ethics isn’t bad,” Grieser explains. “We’re saying that there are potentially trade-offs, which is why we see these unethical cultures persist in the first place. There must be some benefit there.”

So is unethical behavior simply the cost of being innovative? Not necessarily.

“Creative people tend to behave more unethically, but you can still have creative people that are ethical,” Grieser says. “Firms that value creativity might just need to screen more carefully on ethics because you’re likely to get the bad apples with the good.”

“Fifty Shades of Corporate Culture,” co-authored with Nishad Kapadia, Qingqiu Li and Andrei Simonov, is currently a working paper at SSRN.