

### Loss Aversion: Sports Edition

This video introduces the behavioral ethics bias known as loss aversion. We hate losses about twice as much as we enjoy gains, meaning we are more likely to act unethically to avoid a “loss” than to secure a “gain.” This phenomenon is known as loss aversion and must be guarded against.

People can relate to the notion that loss aversion has an impact on tax cheating. People will cheat more to avoid a loss than to secure a gain. So, if they have over-withheld, they are less likely to cheat in order to obtain a larger tax refund (which they view as a gain) than they are to cheat if they have under-withheld and are trying to avoid making a tax payment (which they view as a loss).



Students can usually grasp the idea of loss aversion and relate to it in their everyday lives. A student is more likely to cheat to avoid flunking out of school (a loss) than to move from a B to an A (a gain), unless the student has a 4.0 GPA and views the potential B as a loss.

In life, loss aversion often means that people who have made mistakes and perhaps even violated the law through carelessness or inattention often will, upon realizing that fact, take their first consciously wrongful step in order to attempt to ensure that the mistake is not discovered and they do not lose their job or their reputation. They will lie, they will shred, and they will obstruct justice.

In business, loss aversion also means that firms that are performing well, but not as well as they expected to or as well as others expected them to, may engage in unethical behavior because they frame their act of profiting (but not profiting as much as expected) as a loss rather than a gain.

Loss aversion is related to the behavioral ethics concept of framing because the same situation can often be framed as a potential loss or a potential gain, and the difference in framing can definitely affect people’s decisions. To learn more about this concept, watch [Framing](#).

To learn more about how the ethical dimensions of decisions can fade from view, watch [Ethical Fading](#).

Terms defined in our ethics glossary that are related to the video and case studies include: [ethical fading](#), [framing](#), [loss aversion](#), [moral cognition](#), and [moral emotions](#).

Behavioral ethics draws upon behavioral psychology, cognitive science, evolutionary biology, and related disciplines to determine how and why people make the ethical and unethical decisions that they do. Much behavioral ethics research addresses the question of why good people do bad things. Many behavioral ethics concepts are explored in detail in [Concepts Unwrapped](#), as well as in the video case study [In It to Win: The Jack Abramoff Story](#). Anyone who watches all (or even a good part) of these videos will have a solid introduction to behavioral ethics.

**Discussion Questions**

1. Studies show that people hate losses twice as much as they enjoy gains? Is that consistent with your experience?
2. Have you ever been caught off guard doing something you probably shouldn't have been doing (eating the last cookie in the cookie jar, peeking in someone's diary, touching your mother's jewelry) and when surprised with the question: "What are you doing?", quickly and almost automatically (and falsely) said: "Nothing!"
3. Nick Leeson famously almost sank Baring's Bank when he lost a big chunk of money, but was too embarrassed to admit it and then doubled down trying to make the money back before the loss was discovered. The losses grew and grew (to more than \$2b) as he took increasingly risky bets. Indeed, this is a famous pattern in financial frauds including those involving Jerome Kerviel (lost \$6.3b trading for France's Societe Generale) and John Rusnak (lost \$691m trading for Allfirst Bank). Does it seem to you that loss aversion plays a role in this dynamic?
4. A recent study found that when people were under time pressure, they were more willing to cheat to avoid losses ("losing the sale") than to accrue gains ("getting the sale"). Do you think that is how you would react?
5. Can you think of any situations where you or someone you know may have made decisions affected by loss aversion?
6. Evidence indicates that over-withholding of taxes reduces tax cheating. Can you explain why?
7. What steps can people take to minimize the chance that loss aversion will help lead them to act unethically?

**Transcript of Narration**

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Psychological tendencies, or biases, often lead good people to act unethically. For example, our tendency to prefer avoiding losses to gaining rewards describes what ethicists call loss aversion. As Hall of Fame NBA player Jerry West said, “The pain of losing is so much stronger than the joy of winning.” And the research backs that up. Scientific studies show that we hate losses about twice as much as we enjoy gains.

Loss aversion is related to prospect theory, developed by Nobel Prize winner Daniel Kahneman and Amos Tversky. Prospect theory describes how people tend to take much greater risks to avoid losing things compared to the risks they would’ve taken to gain those things in the first place. Sometimes, to avoid a loss, we consciously decide to lie. We cover up what might be a simple accidental mistake because we don’t wish to suffer the consequences of making that mistake.

For example, research shows that companies often overstate future business earnings, unintentionally. Then, when companies miss those numbers -- to avoid admitting an embarrassing error -- they choose to lie. They begin to intentionally mislead investors to avoid a hit to their reputation and their stock price. The company’s unintentional mistake evolves into intentional fraud.

Of course, loss aversion shows up in the world of sports. For example, college basketball head coach Dave Bliss had a big problem—one of his players had murdered one of his teammates, and lots of cash was found at the dead player’s apartment. Coach Bliss had paid cash to the murdered player to encourage him to come and play at his university. This was illegal. To cover up the illegal deal, Bliss lied. He told authorities that the dead player had cash because he was a drug dealer. Would Coach Bliss have told such a despicable lie about the murdered player to get his coaching job in the first place? Probably not. But in order to keep his coaching job, Bliss did exactly that.

So, to be the kind of person we want to be, we need to monitor our own motivations and actions, constantly and consistently. We may also need to muster the courage to admit to our most painful mistakes. Because when we don’t own our mistakes, the pressure of loss aversion can lead us to commit much worse moral errors. The cover-up is often truly worse than the crime.

**Bibliography**

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**Additional Resources**

The latest resource from Ethics Unwrapped is a book, [\*Behavioral Ethics in Practice: Why We Sometimes Make the Wrong Decisions\*](#), written by Cara Biasucci and Robert Prentice. This accessible book is amply footnoted with behavioral ethics studies and associated research. It also includes suggestions at the end of each chapter for related Ethics Unwrapped videos and case studies. Some instructors use this resource to educate themselves, while others use it in lieu of (or in addition to) a textbook.

Cara Biasucci also recently wrote a chapter on integrating Ethics Unwrapped in higher education, which can be found in the latest edition of [\*Teaching Ethics: Instructional Models, Methods and Modalities for University Studies\*](#). The chapter includes examples of how Ethics Unwrapped is used at various universities.

The most recent article written by Cara Biasucci and Robert Prentice describes the basics of behavioral ethics and introduces Ethics Unwrapped videos and supporting materials along with teaching examples. It also includes data on the efficacy of Ethics Unwrapped for improving ethics pedagogy across disciplines. Published in *Journal of Business Law and Ethics Pedagogy* (Vol. 1, August 2018), it can be downloaded here: "[Teaching Behavioral Ethics \(Using “Ethics Unwrapped” Videos and Educational Materials\).](#)"

An article written by Ethics Unwrapped authors Minette Drumwright, Robert Prentice, and Cara Biasucci introduce key concepts in behavioral ethics and approaches to effective ethics instruction—including sample classroom assignments. Published in the *Decision Sciences Journal of Innovative Education*, it can be downloaded here: "[Behavioral Ethics and Teaching Ethical Decision Making.](#)"

A detailed article written by Robert Prentice, with extensive resources for teaching behavioral ethics, was published in *Journal of Legal Studies Education* and can be downloaded here: "[Teaching Behavioral Ethics.](#)"

Another article by Robert Prentice, discussing how behavioral ethics can improve the ethicality of human decision-making, was published in the *Notre Dame Journal of Law, Ethics & Public Policy*. It can be downloaded here: "[Behavioral Ethics: Can It Help Lawyers \(And Others\) Be their Best Selves?](#)"

A dated (but still serviceable) introductory article about teaching behavioral ethics can be accessed through Google Scholar by searching: Prentice, Robert A. 2004. "[Teaching Ethics, Heuristics, and Biases.](#)" *Journal of Business Ethics Education* 1 (1): 57-74.