Moral Attribution of Money Laundering Transgressions

Do the layperson blame the bank?

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Preface

How we interpret information and assign blame for bad outcomes is one of the most common and natural of human activities. It's a familiar tale for most of us: Reading the newspaper in the morning and haggling over who's to blame for some scandal. Most of us may never act on outcomes we find blameworthy, but some of us may take actions. This thesis investigates these everyday actions from multiple angles.

The thesis started out as an unwanted child but ended up as a love project. I want to thank Professor Einar Breivik for his patience as a workaholic tried to negotiate enough free time for himself to finish the thesis. I also want to thank my significant other, Charlotte, for her support during stressful times. Lastly, I want to thank my parents for nurturing my curiosity from a very young age.

Best,

Kyrre Kjellevold

Summary

This master thesis reports the result of an experiment on laypersons attribution of blame and evaluation of moral wrongness in the aftermath of money laundering transgressions by a bank. We manipulate two key variables of theoretical and practical interest. First, we manipulate whether the bank choose to self-report the transgressions, or a newspaper discovers the activity and report it. Second, we manipulate whether the money laundering transgressions took place close to the participants home (low social distance) or in a foreign country (high social distance). To test our hypotheses, we conduct a survey-experiment on Amazon Mechanical Turk with 181 US citizens.

We find that the bank's reporting choice significantly impacts attribution of blame through its effect on attribution of intent to the bank for the money laundering transgressions. However, we do not find that social distance impacts either attribution of blame or evaluation of the moral wrongness of the money laundering transgressions. Furthermore, we find that participants prior attitudes towards the harm of money laundering significantly impacts both attribution of blame directly and through their effect on attribution of intent and causation to the bank for the transgressions.

In addition, we find that participants' willingness to change their bank affiliation after revelation of the bank's role in the money laundering activity is significantly impacted by their moral identity. Of further interest is the finding that the bank's reporting choice (Self-reporting the transgressions, or the later discovery and reporting of journalists) also impacted the willingness to change bank affiliation. Banks who choose to come clean receive substantial credit in the public both when blame is attributed and when the layperson choose whether they want to continue the customer relationship.

Contents

1. Introduction

Money laundering is the act of giving dirty money a legitimate appearance. It's a process of converting or transferring the asset with the knowledge that it derives from a criminal source, with an aim to conceal that criminal source or aid the criminal involved in committing the crime (Tiwari, Gepp & Kumar, 2020). Money laundering may negatively affect a country's economy by increasing criminal activities, especially organized crime, and provide growth stimulus to the shadow economy which impede tax collection and leads to revenue loss for state- and local governments (Hendriyetty & Grewal, 2017).

Commercial banks may act as important intermediators in money laundering schemes by allowing criminal funds to transfer across borders undetected (Simwayi & Guohua, 2011). Banks have received increasing scrutiny in the last decades as the global fight against money laundering, terrorism and organized crime has intensified. Anti-money laundering enforcement relies on bank reporting to law enforcement and government agencies about suspicious transactions. Banks are further required to incur costly screening, monitoring, and reporting with the threat of government sanctions if found noncompliant (Takats, 2009).[1] Another threat of noncompliance is the implicit reputation cost of being publicly known for money laundering transgression. This thesis investigates one part of this reputation cost for banks: Customers reaction to money laundering transgressions.

We investigate bank customers reaction to money laundering transgression with an 2x2 between subject experiment on the Amazon Mechanical Turk platform with 181 American participants. Our hypotheses are developed from the culpable control model (Alicke, 2000), moral identity research (e.g., Aquino & Reed, 2002) and recent research on how social distance impacts moral attribution and action (e.g., Gilead, Ben David & Ecker, 2017). We manipulate whether the money laundering transgressions where self-reported by the bank to the authorities or reported by an investigative news team. Furthermore, we manipulate whether the transgressions took place in the US or in Mexico.

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[1] Sanctions include the costs of public law enforcement actions (cease and desist orders or written agreements), the costs of private law enforcement actions (memoranda of understanding), and implicit reputation costs. For example, banks are fined if suspicious activity detection and reporting procedures are not in place. Yet, the test of these policies is whether banks are able to identify and report those transactions which are considered to be suspicious ex post. (Takats, 2009, p.33-34).

According to the culpable control model banks who self-report their transgressions will be perceived as acting with less intent and have less responsibility for the illegal activity, compared to when a third-party, like a journalist, discover and report the transgressions. We find that when the bank's money laundering transgressions was discovered and reported by a newspaper, the bank was attributed significantly more intent for the transgression, leading to significantly more blame, than when the bank choose to self-report the same transgressions. We further find that prior attitudes about the harm of money laundering directly affects attributed blame to the bank, but also impacts blame through its effect on attributed intent and causation. However, we do not find that social distance impacts participants attribution of blame or their moral evaluation of the transgressions.

We also investigated whether participants' moral identity would impact how they acted on the information about the bank's transgressions. We find strong evidence to this effect, as participants with higher moral identity was significantly more likely to be willing to change bank affiliation if their current bank committed similar transgressions. We further find that participants were more likely to be willing to change bank affiliation if a journalist discovered and reported the transgressions (all else being equal), which point to the cost for banks if they do not opt for transparency.

Our results reveal the important role played by bank customers prior attitudes and identities when trying to understand how they will react to revelations of financial crime. It provides an important contribution to research on banks corporate social responsibility and reputation building (e.g, McDonald & Rundle-Thiele, 2008; Dell'Atti, Trotta, Iannuzzi & Demaria, 2017). In addition, the results reveal the critical role banks' reporting choices can have for later juror behaviour in civil actions after money laundering transgressions. As such, the thesis adds to the growing literature on juror behaviour (See Levett, Danielsen, Kovera, & Cutler, 2005, for a review). Lastly, the results reveal a significant role for regulators in communicating broadly the harm of money laundering activity, as we found prior attitudes towards the harm a key predictor variable in attribution of blame.

This thesis will have the following structure: The next section (Section 2) will outline our hypotheses, while the experimental design, case and sample are explained in Section 3. Then follows our results and analysis in Section 4, while we provide a concluding discussion in

Section 5. Figures and output from the mediation analysis can be found in Section 6, while the experimental material is available in the Appendix.

2. Background and Theory

2.1 Culpable control model

2.1.1 Introduction

When individuals or companies violate norms, they risk receiving blame from their surroundings (Byrne, 2016). The culpable control model (Alicke, 2000) asserts that attribution of blame is based on three factors: causation (behavioral criteria), intention (mental criteria), and spontaneous evaluation.

According to the culpable control model, spontaneous evaluative reactions evoke a blame validation mode of processing in which observers align the mental and behavioral criteria in a manner that supports their desire to blame the source of their reactions. The culpable control model assumes that observers' evaluative or affective reactions to the actor's motives, character, actions, and the outcomes that ensue influence judgments about the mental (intentions, roughly "mens rea") and behavioral (causation, roughly "actus reus") criteria that legal scholars prescribe for blame (Alicke, 2000; Alicke, Buckingham, Zell & Davis, 2008; Rogers et al., 2019).

2.1.2 Causation

When thinking about the causes of an event individuals will unconsciously and automatically construe the counterfactual (Byrne, 2016). If the individual or firm could have acted differently, they are usually assigned more blame (Alicke et al., 2008; Alicke, Rose & Bloom, 2011). However, people's perception of causation is consistently influenced by information about the actor's positive or negative character, motives, or behavior (e.g., Alicke, 1992, Alicke & Zell, 2009; Alicke et al., 2011), as well as by the character of the victim (e.g. Alicke & Davis, 1989; Alicke et al., 2008) and the nature of the consequences (e.g. Alicke et al., 2011; Mazzocco & Alicke, 2004). In addition, individuals seem to not imagine an alternative to actions that leads to a bad outcome when the action itself conforms to a moral norm or obligation (McCloy & Byrne, 2000; Walsh & Byrne, 2007). In such cases, actors are in line with the culpable control model blamed less.

In sum, there is an interaction between spontaneous negative evaluations and mutability, where mutability leads to more blame and causal attribution if the individual or firm actions (or passivity) arouses spontaneous negative evaluations (Alicke et al., 2008).

2.1.3 Intention

People or firms who cause harm with intent receive more blame for the outcome (e.g., Ames & Fiske, 2013, 2015; Fincham & Shultz, 1981).
The culpable control model separates between intention of action and intention of outcome (Alicke, 2000). Intention of action refers to whether the actor behaved knowingly, purposively, and without external constraint, while intention of outcome refers to the actor's state of mind regarding the ultimate consequences (where they desired or foreseen). Actors are generally blamed less for harmful consequences when one or both elements of intentional actions are missing (Alicke, 2000; Pizarro, Uhlmann, & Salovey, 2003; Guglielmo, Monroe, & Malle, 2009; Rogers et al., 2019).

Since intentions are generally hidden from the perceptions of others, attributions of intent are especially susceptible to spontaneous evaluations (Roger et al., 2019). As with the causal element in the culpable control model, attributions of intent have been found to be influenced by of e.g., moral disapproval, the actor's character, race (racial bias) and social group (Knobe, 2003a; Roger et al., 2019). Furthermore, knowledge attributions to the actor are typically higher when the outcome involves harmful consequences (Knobe, 2003b), which leads to stronger perceptions of actor's intent (Knobe, 2003a; 2003b; 2004).

2.1.4 Hypotheses

In the case of money laundering transgressions, the bank is not the only actor involved in the norm violation. How blame is attributed between the criminal agent and the bank can be predicted based on several factors derived from the culpable control model.

(1) Intent and causation will be inferred from the bank's public actions. We expect self-reported transgressions to be perceived as indicative of more unintentional error on part of the bank. While the bank could act differently (there exist a counterfactual: "Not accepting the customer"), the bank's causal and intentional role is likely less prominent due to the

perception of taking responsibility. At the opposite end is the active concealment on part of the bank, and the later revelation of the transgressions by media and/or government regulators. The active concealment is expected to be perceived as intentional involvement in the money laundering transgressions. We therefor expect that the bank's transparency will impact people's perception of the bank's intent and causal role with regards to the money laundering transgressions.

(2) Attribution of blame will be higher when the bank is perceived to be acting with greater intent and have more responsibility (causal role) for the money laundering transgressions.

(3) We expect people who have stronger beliefs about the harmful effects of money laundering transgressions to have a higher likelihood of activating a blame validation mode which would lead to stronger perception of intent and causation on part of the bank. We therefor expect that prior attitudes towards the harm of money laundering transgression will increase perception of intent and causation and lead to higher attribution of blame to the bank.

In sum, we postulate three hypotheses based on the above discussion:

> *H1a: Attribution of causality and intent to the bank will be higher when the bank conceals the money laundering transgressions.*

> *H1b: The bank will be blamed to a greater extent when the bank conceals the money laundering transgressions. Participants' attribution of intent and causality will mediate the effect.*

> *H1b: The bank will be attributed blame to a greater extent by participant with a stronger attitude towards the harm of money laundering. Participant's attribution of intent and causality will mediate part of the effect.*

2.2 Blame validation: Social distance and political ideology

Morality can be said to serve a social function (Haidt, 2001; 2007). The perceived morality of actions therefor depends not only on the specificity of the actions themselves, but also on the relational context in which those actions occur (e.g. Earp, McLoughlin, Monrad, Clark & Crockett, 2021). However, most moral theories to date have not considered who is doing the action and to whom, and how this may significantly impact moral judgments.[2] This is peculiar, as research suggest humans share a lot more concern with the moral life of our neighbors, than the fate of individuals perceived as socially distant from us (e.g., Cikara, Farnsworth, Harris, & Fiske, 2010; Duclos & Barasch, 2014; Tronto, 1993).

Social distance has been found to impact more our evaluation of omission type of acts than of harmful acts (Gilead et al., 2017). For example, people react more strongly to human trafficking in Africa than of children dying out of dirty water and preventable disease (Gilead et al., 2017). Money laundering may be considered an act of omission on part of the bank (lack of care) necessitated by harmful acts such as drug-, human or gun trafficking. As such we predict that social distance will decrease participants attribution of blame and punishment to the bank due to less negative spontaneous evaluations.

2.2.1 Hypotheses

Based on the above discussion we postulate two hypotheses to be tested:

> *H2a: Participants will judge money laundering activity commited through a foreign branch less harshly than similar activity in their local branch.*

Right-wing politics exhibit a more harm-based morality with ideology focused more on law and order and protection of negative rights (e.g. property rights). [3] We therefor predict that participants with a political standing more to the right, will reduce their moral evaluation of money laundering activity committed through a foreign branch more than their more liberal counterparts.

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[2] See Bloom (2011) for a discussion of what is lost when morality is investigated through the behavior of strangers instead of through the behavior of family, friends, co-workers etc.
[3] Se e.g. Ayn Rand (1964).

H2b: Participants identifying as more conservative will exhibit a stronger pattern in H2a than participants identifying as more liberal.

2.3 Moral identity

A person's moral identity can be understood as an organized cognitive representation of moral values, goals, traits, and behavioral scripts (Aquino & Reed, 2002; Shao, Aquino & Freeman, 2008). This perspective on moral identity assumes that the moral identity of a person is more central to his or her self-definition as an individual if the moral knowledge structures are more readily accessible and available for processing of social information (Shao et al., 2008).

As individuals strive to maintain self-consistency between their different self-definitions (e.g., Festinger 1957), individuals can be assumed to act according to their moral identity when its activated and of sufficient strength. However, it is also assumed that moral identities occupy different levels of importance in people's self-definitions (Aquino & Reed, 2002). Furthermore, in situations where other cues are strong (such as financial rewards), other aspects of an individual's identity may be activated, and the influence of the moral identity may be diminished (Aquino, Freeman, Reed, Lim & Felps, 2009).

2.3.1 Hypotheses

When asked about their willingness to change bank affiliation based on money laundering transgressions, we expect that an individuals' moral identity will be activated and lead to higher willingness to change their bank affiliation. [4]

H3a: Participants with stronger moral identity will exhibit higher willingness to change their bank affiliation.

At the same time, experimental research is mixed on whether people's moral sense of self does extend to socially distant others (Batson, Thompson, Seuferling, Whitney, &

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[4] Whether individuals in a real situation will act according to the self-importance of their moral identity would likely depend on the strength of their moral identity, whether the social cues in the situation elicit other identities and if the financial rewards are sufficiently strong to bias against moral activation (Shao et al. 2008). This line of inquiry will not be investigated in this paper.

Strongman, 1999; Reed & Aquino, 2003; Reese, Berthold, & Steffens, 2012). Moral identity of sufficient strength has been found to have predictive value for e.g., charitable giving (e.g. Winterich, Mittal & Aquino, 2013) and reactions to harm based acts such as war or torture (Aquino, Reed, Thau & Freeman, 2007; Smith, Aquino & Koleva, 2014), and both could depending on the circumstance be evaluated as out-group moral behavior. However, in line with research on social distance we predict that omission-based acts will elicit less activation of the moral identity, and especially so when social distance is large.

> *H3b: Participants' moral identity will not interact with social distance on willingness to change bank affiliation.*

3.   Sample and experimental design

3.1 Sample

Participants in this study were 181 Americans who were recruited using the platform Amazon Mechanical Turk (hereafter Mturk).[5] The sample consisted of 117 men, 61 women and 2 non-binary (1 participant did not indicate their sex) who ranged in age from 21 to 71 years (Mean 39.15, Standard deviation 10.65).

Fifty-seven percent (104) of the participants had graduated with a bachelor's degree, while ten percent (19) had earned a master's degree and two percent a doctoral degree (3). Twenty-six percent (47) had high school diploma as their highest education. [6]

Sixty-eight percent (123) of the participants worked in the private sector, while twenty-nine percent (52) worked in the public sector. A total of three percent (6) declined to answer, answered as unemployed or that Mturk was their sole occupation.

Forty-four percent (80) reported to be on the liberal side of the political spectrum, while thirty percent (54) reported to be on the conservative side. Twenty-six percent (47) reported to be in the middle of the political spectrum.

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[5] A total of 191 participants completed the experiments, but 10 participants was eliminated from the sample after failing the manipulation check. All descriptive data and results are reported for the corrected sample.
[6] A total of 8 participant elected other educational option, and the most frequent response was associate degree.

Table 1 – Descriptive information on sample across conditions

Condition	1	2	3	4	Total
N	46	49	44	42	181
Sex					
Male	28	34	25	30	117
Female	18	15	17	11	61
Binary/non-gender			2		2
Prefer not to say				1	1
Age					
21-30	15	11	7	11	44
31-40	15	22	17	18	72
41-50	10	10	9	8	37
51-60	2	4	8	5	19
61-70	3	2	3		8
71-80	1				1
Highest education					
High School	14	10	10	13	47
Bachelor degree	21	31	27	25	104
Master's degree	8	5	4	2	19
PhD	1	1	0	1	3
Other	2	2	3	1	8
Political standing					
Liberal	18	21	19	22	80
Conservative	10	20	15	9	54
Middle position	18	8	10	11	47

3.2 Experimental design

3.2.1 Case, manipulation and procedure

To test our hypotheses, we utilized a 2x2 between-subject design. Reporting decision and social distance were both manipulated at two levels: Self-reported transgressions/Journalist discovered transgressions, and Low social distance (USA)/High social distance (Mexico). [7]

Participants were presented with a newspaper article about the money laundering transgressions of a fictious bank called "Dollar Bank". We manipulated whether the article stated the bank had self-reported the money laundering transgressions to the authorities or whether Wall Street Journal had discovered and reported the transgressions. We also manipulated the location of the money laundering activity: either the branch office in San Diego (USA) or a Mexican subsidiary.

After reading the newspaper article the participants were transferred to a screen where they read and responded to the dependent measure. Then followed screens for post-experimental measures and for descriptive questions before they were transferred to the end screen.

3.2.2 Dependent measures

To test our hypotheses participants had to answer five 10-point Likert scales to capture their attribution of intent, causation and blame, and their evaluation of moral wrongness and willingness to change bank affiliation:

Blame: *To what extent do you think Dollar Bank can be blamed for participating in the money laundering scheme?* (1 («Not at all blameworthy") to 10 ("Extremely blameworthy»))

Intent*: To what extent do you think Dollar Bank intended to be part of the money laundering scheme?* 1 («The bank definitely did not intend to be part of the money laundering scheme») to 10 («The bank definitely intended to be part of the money laundering scheme. »).

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[7] See appendix for the instrument.

Causation*: To what extent do you think Dollar Bank was responsible for the money laundering scheme?* 1 («Not at all the cause») to 10 («Very much the cause»).

Moral evaluation: *To what extent do you think Dollar Bank's actions as you read them in the previous section were morally defendable?* 1 («The bank's action was not morally defensible») to 10 («The bank's action was morally defensible»).

Willingness to change bank: *Imagine that you have a customer relationship with Dollar Bank. Would you based on the provided information end your affiliation with the bank?* 1 («Very unlikely») to 10 («Very likely»).

3.2.3 Additional measures

To measure moral identity, we utilize the ten-item moral identity scale developed by Aquino & Reed (2002).[8] The authors propose that the self-importance of moral identity is composed by two dimensions. The first is the degree he degree to which moral traits are deeply rooted in the self-concept (internalization), and the second reflects the degree to which these moral traits manifest publicly through the person's actions in the world (symbolization) (Aquino & Reed, 2002; Reed, Aquino & Levy, 2007). Participants answered the ten questions on Likert type items (1 = "strongly disagree" and 5 = "strongly agree"). The Cronbach alpha for the symbolization items was 0.872, and for the internalization items 0.778, with mean (standard deviation) of 3.27 (0.976) and 3.38 (0.392) respectively. We averaged the score across internalization items and symbolization items to arrive at the two measures for the self-importance of moral identity for each participant.

To provide further insight into how the participants perceived the bank's actions we asked them to indicate whether they would describe the bank's action as a 1) Act of omission, 2) Act of harm or 3) Other. In the third category they were prompted to write in their response.

We measured participants attitudes towards banks and financial crime with four measures in the post experimental section of the experiment. This was done to capture the spontaneous evaluation of the culpable control model which theory suggest is heavily influenced by prior

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[8] See appendix (section 8.2) for the scale with the ten items.

attitudes and beliefs and constitute our hypotheses 1c (Alicke, 2000). Attitude measure 1 asked participants to report their trust in the US banking system on a 10-point Likert scale from 1 ("I have no trust") to 10 ("I have absolute trust"). Attitude measure 2 asked participant to report the extent they felt US banks have an obligation to fight financial crime on a 10-point Likert scale from 1 ("No responsibility") to 10 ("Extremely responsible"). Attitude measure 3 asked participant to report to what extent they believed money laundering activity through the American financial system was harmful to the US on a 10-point Likert scale from 1 ("No harm") to 10 ("Very harmful"). Attitude measure 4 asked participant to report to what extent they believed money laundering activity through the American financial system was harmful to the rest of the world on a 10-point Likert scale from 1 ("No harm") to 10 ("Very harmful").

Lastly, we asked participants to report their political standing on a 7-point Likert-scale ranging from 1 ("Liberal") to 7 ("Conservative). [9]

3.3 Data collection

The survey was administered on Amazon Mechanical Turk using Qualtrics on May 5th, 2021 and closed two days later. Every worker was awarded 5 USD for participating in the experiment.

The number of participants was capped at 200, but due to technical difficulties with Qualtrics only 191 workers fully completed the experiment.

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[9] In addition, we had a descriptive information section where participants were asked about their age, sex, and educational background.

4. Results

4.1 Descriptives

See Table 2 for descriptive information (averages and standard deviation) on dependent variables and post-experimental measures of attitude across conditions.

Condition 1: Journalist discovered and reported / No social distance
Condition 2: Journalist discovered and reported / High social distance
Condition 3: The bank self-reported / No social distance
Condition 4: The bank self-reported / High social distance

Table 2 – Descriptive information

Conditions	1	2	3	4
N	46	49	44	42
Dependent variable - Averages (std.dev.)				
Intent	4.13 (3,12)	4.37 (3.17)	2.86 (2.78)	3.91 (3.09)
Causation	5.70 (2.87)	6.04 (2.68)	4.61 (3.03)	5.60 (2.79)
Blame	6.93 (2,14)	6.63 (2.52)	5.64 (3.02)	6.91 (1.85)
Moral wrongness	3.39 (2.53)	4.35 (2.95)	5.07 (3.03)	4.95 (2.78)
Willingness to change bank	5.89 (3.15)	5.86 (3.00)	4.59 (3.64)	4.64 (3.29)
Post-experimental measures - Averages (std.dev.)				
Attitude 1: Trust in banks	4.22 (2.62)	4.94 (2.63)	5.41 (3.12)	4.24 (2.99)
Attitude 2: Bank's responsibility to fight crime	7.74 (2.10)	7.76 (1.90)	8.02 (2.46)	7.95 (2.02)
Attitude 3: Harm of money laundering in US	7.72 (2.22)	7.92 (1.64)	7.66 (2.05)	7.02 (2.24)
Attitude 4: Harm of money laundering outside US	6.70 (2.06)	7.57 (1.90)	7.16 (2.07)	7.29 (2.08)
Internalization (Moral identity)	3.33 (0.39)	3.38 (0.42)	3.46 (0.34)	3.33 (0.40)
Symbolization (Moral identity)	3.17 (0.96)	3.43 (0.96)	3.26 (0.92)	3.21 (1.07)

None of the post-experimental measures were significantly different across conditions.[10]

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[10] Which indicates that our two manipulations did not affect our attitude or moral identity measures, reducing the threat of bias in our testing of hypothesis 1c, 3a and 3b. However, future research may want to pre-experimentally measure attitudes and make sure the conditions are balanced on attitude measures to further reduce the threat of confounds.

4.2 Testing Hypotheses

4.2.1 Hypotheses 1a, 1b and 1c

To test the hypothesis 1a, 1b and 1c we run a two-way ANOVA-model and linear regression models including covariates measured in the post-experimental section of our experiment.[11] [12] [13]

We do not find a significant main effect on the 5% level between the decision to self-report and attributed intent, $F(1,177) = 4.56$, $p = .058$. The main effect of decision to self-report on causation is not significant at the 5% level, $F(1, 177) = 3.04$, $p = .083$. Participants' prior attitudes towards the harm of financial crime will according to the culpable control model have a strong effect on attributed intent and causation (see hypotheses 1c). We therefor regress intent on our main independent variables and include our attitude measures as control variables (See Table 3). We observe that the effect of the bank's reporting decision significantly impacts attributed intent, $b = –.936$, $t(174) = -2.12$, $p < .05$, but not causation. In sum, we find evidence for the effect of reporting choice on attributed intent but not on attributed causation.

The main effect of the decision to self-report on blame is not significant on a 5% level, $F(1, 177) = 1.98$, $p = .1613$. The linear regression model does not find a significant effect of reporting choice on attributed blame (see Table 3). As we did not hypothesize a direct effect of reporting choice on attribution of blame, but an indirect effect (mediation) through attribution of intent and causation, we conduct a simple mediation analysis using Hayes (2017) PROCESS-macro for SPSS to test the hypothesized direction of effects. Since we already have established that reporting choice do not affect attributed causation, we do not perform mediation analysis of this construct. We include the attitude measures 1-4 as control variables in the mediation model and find significant indirect effect between reporting choice

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[11] Our main analysis in ANOVA are the main effects since we do not hypothesize an interaction with social distance.

[12] We do not use ANCOVA-models since the homogeneity assumption of ANCOVA is violated for all covariates across all subpopulations. However, test of linear regression assumptions reveals no strong violation of the assumption of homoscedasticity and the normality of residuals across the regression models used in this study. Furthermore, multicollinearity checks reveal no threats to our inferences.

[13] Our dependent measures are not normally distributed, but ANOVA are robust to this violation as our sample size across cells are near equal. Furthermore, Levene's test rejected the assumption of homogeneity of variance across populations for our dependent measures. However, our sample is only slightly unevenly distributed, and the ANOVA-analysis is robust against violation of this assumption when the sample across cells is equal or near equal. We therefor proceed with ANOVA as our main analysis.

and attributed blame through attributed intent (See output in Section 6.1). In sum, our evidence for hypothesis 1b is mixed. We find the hypothesized effect of reporting choice on blame, but only a mediation effect through attributed intent and not through attributed causation.

Hypotheses 1c predicts that prior attitudes towards the harm of money laundering will increase the likelihood of entering a blame validation mode where attribution of intent and causal role to the bank increases, which in turn increases the attribution of blame. We therefor perform mediation analysis to investigate whether our experimental data corresponds to the culpable control models predictions and our hypotheses 1c. We utilize the PROCESS-macro in SPSS developed by Andrew Hayes (2017) to run four mediation analysis where we as hypothesized test whether prior attitudes towards the harm of money laundering both impact attribution of blame directly and through its effect on attribution of intent and causation. [14] We find that there is a significant mediation effect for both attributed intention and causation across attitude measure 4, but only for attributed causation for attitude measure 3. The direct effect is significant in all cases. This provides strong evidence for the culpable control models prediction and hypotheses 1c.

To sum up, the experiment allows us to reject the null hypothesis of no relationship between the bank's decision to self-report money laundering transgressions or not, and attributed intent and blame. We further find significant evidence that participants prior attitudes towards the harm of money laundering transgressions leads to increased attribution of intent and causality to the bank which further increase the attribution of blame. In total, we find strong evidence for our hypotheses and the ability of the culpable control model to explain participants' response to money laundering transgressions.

4.2.2 Hypotheses 2a and 2b

We did not hypothesize an interaction between social distance and the bank's reporting decision, as such our planned analysis was the main effect of social distance on attributed blame and evaluation of moral wrongness. The main effect of social distance on both

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[14] See section 6.4 for a graphical illustration of the mediation models and the output. We do not hypothesize parallel mediation as the theory suggest that attribution of intent and causality are separate processes.

attributed blame and evaluation of moral wrongness is not significant, $F(1, 173) = 1.62$, $p = .2048$, and $F(1, 173) = 1.00$, $p = .3179$, respectively.

To test the impact of political ideology we include participants self-reported political standing in the regression model and create an interaction term with social distance. Hypotheses 2b predict a significant interaction term, but neither was observed on both attributed blame and attributed moral wrongness.

In sum, our experiment does not find evidence for hypothesis 2a and 2b. We therefore cannot reject the null hypothesis of no effect of social distance on attributed blame and evaluation of moral wrongness with regards to money laundering transgression. We can also not reject the null hypothesis of no interaction between social distance and political standing on attribution of blame and evaluation of moral wrongness.

4.2.3 Hypotheses 3a and 3b

To test hypothesis 3a we added our two measures of moral identity to our regression-model and used willingness to change bank as dependent variable.

We find a significant effect of the symbolization component of moral identity on willingness to change bank affiliation, $b = .898$, $t(168) = 3.40$, $p < .001$, but not a significant effect of the internalization component. We therefor conclude that participants who were high symbolizers (i.e., indicating that their moral traits are reflecting in their actions) would be significantly more likely to change bank affiliation in line with hypotheses 3a.

We then add two interaction terms between our moral identity measures and social distance to test hypotheses 3b with our regression-model. Both interaction terms are not significant. This provides support for hypotheses 3b which predicted no interaction between moral identity and social distance with regards to willingness to change bank affiliation.

In sum, our experiment provide support for both hypotheses 3a and 3b. We can reject the null hypotheses of no interaction between the self-importance of moral identity and people's willingness to change their bank affiliation after the discovery of money laundering

transgressions. In addition, our evidence also supports hypotheses 3b which predicted no interaction between participants' moral identity and social distance.

Table 3 – Regression output

Model nr: Dependent var:	(1) Intent	(2) Causation	(3) Blame	(4) Wrongness	(5) Willingness to change bank affiliation	(6) Willingness to change bank affiliation
Self-reported	-0.936* (-2.12)	-0.743 (-1.80)	-0.493 (-1.48)	1.057** (3.08)	-1.255** (-2.77)	-1.258** (-2.78)
Social distance	0.339 (0.77)	0.447 (1.08)	0.297 (0.89)	0.424 (1.23)	-0.196 (-0.43)	-0.318 (-0.69)
Attitude 1	0.0375 (0.49)	0.0227 (0.31)	-0.159** (-2.72)	0.346*** (5.50)	-0.012 (-0.14)	-0.010 (-0.11)
Attitude 2	-0.208 (-1.79)	-0.0152 (-0.14)	0.299*** (3.41)	-0.302** (-3.33)	0.313** (2.61)	0.343** (2.85)
Attitude 3	-0.168 (-1.31)	0.0264 (0.22)	0.046 (0.47)	-0.282** (-2.81)	-0.007 (-0.05)	-0.004 (-0.03)
Attitude 4	0.499*** (4.06)	0.421*** (3.66)	0.274** (2.94)	0.033 (0.34)	0.299* (2.34)	0.334* (2.57)
Internalization (Moral identity)					-0.0587 (-0.09)	-0.061 (-0.09)
Symbolization (Moral identity)					0.898*** (3.40)	0.873** (3.31)
Political Ideology				0.317** (3.27)		0.086 (0.67)
Age						-0.041 (-1.86)
Education						-0.201 (-0.82)
_cons	3.259** (2.80)	2.426* (2.23)	2.705** (3.07)	5.202*** (5.27)	-1.307 (-0.59)	-0.873 (-0.38)
N	181	181	181	181	178	178
R^2	0.1282	0.1230	0.2205	0.4036	0.2241	0.2459

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

4.3 Additional analysis

4.3.1 Consequences for the customer relationship

We further investigated potential drivers of participants willingness to change their bank affiliation after the discovery of money laundering transgressions. These interactions where not hypothesized and should be viewed as exploratory analysis. We added education and age as variables to the regression-model (See Table 3). Our results reveal that most of the variation in willingness to change bank affiliation is driven by variables not captured in our experiment. [15]

First, we find that participants were significantly more likely to change their bank affiliation if the bank did not self-report the money laundering transgressions, $b = -1.258$, $t(165) = -2.78$, $p < .01$. As expected, social distance did not significantly predict the willingness to change bank affiliation. We similarly did not find significant results for education, age, and political ideology (See Table 3).

Second, we find that attitude measure 2 (Bank's responsibility to fight crime), $b = .343$, $t(165) = 2.85$, $p < .01$, and attitude measure 4 (Harm of money laundering outside US), $b = .334$, $t(165) = 2.57$, $p < .05$, significantly predict the willingness to change bank affiliation after money laundering transgressions. In sum, participants who indicated stronger beliefs in bank's responsibility to fight crime, or stronger belief in the harmful effect of money laundering transgressions, was significantly more like change their bank affiliation.

4.3.2 Act of omission or harm

Most participants across conditions responded that the money laundering transgressions was an act of omission (73.48 percent) rather than an act of harm (15.47 percent). This is also mirrored in the answers in the "other" category, where the majority felt the bank to act with ignorance (a minority would state "willful ignorance"), carelessness or lack investment in

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[15] With an R-square of 0.25, the model has little predictive value.

proper safeguards. Overall, participants' answers reveal the perception that money laundering transgressions seems to require little intention and actions (causation) on part of the bank. Most participants seem to think the bank was not actively involved but rather ignorant to criminals using their services or lack the proper investments in safeguards.

However, we find that the proportion of participant responding that the money laundering transgressions was an act of harm were significantly higher when journalist uncovered the transgressions, X^2 (2, N = 181) = 6.699, p = .035. [16] This result indicate that participant was significantly more likely to think that the bank took a more active and damaging role in the money laundering transgressions if journalists discovered and reported the illegal activity, although the bank's money laundering transgressions was the same in all conditions (only location changed).

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[16] The proportions were not significantly different when social distance was high or low, X^2 (2, N = 181) = 3.954, p = .138.

5. Concluding discussion

This study provides strong evidence for the culpable control model's (Alicke, 2000) ability to explain the typical bank customers reaction to money laundering transgressions and reveals important insight into banks' reputation costs related to money laundering. In a situation with only the evidence and understanding gained through a newspaper article, participants relied on cues for intent found in the presented information and their prior beliefs and attitudes about the harm of money laundering transgressions, when attributing blame to the bank.

If the bank chose to self-report their actions to the authorities, they were significantly less blamed by the public. This effect was mediated by attributed intent, and our result do not reveal a direct effect of reporting choice on attributed blame. Since the actual money laundering activity was kept constant (except for location and reporting choice), this result reveals participants' subtle use of cues to infer intent. Banks not choosing to come forward when discovering money laundering transgressions are perceived to act with more intent, and therefor receive more blame by the public. The results speak to the cost of secrecy for the bank, and the substantial benefit of the doubt received by the public for "owning your mistakes".

The study further reveals that participants' prior attitudes and beliefs about the harm of money laundering had a significant impact on their attribution of blame for the transgressions both directly and through its effect on attributed intent and causation. This supports the culpable control model's prediction that stronger prior attitudes towards the harmful consequences of money laundering activity may create a blame validation mode and lead to stronger attribution of blame to the bank. It further documents that prior attitudes may lead to attribute more knowledge (intent) to the bank for their role in the transgressions.

We further find that participants moral identity as hypothesized significantly impact their willingness to change their bank affiliation after receiving the news of money laundering transgressions by their bank. While our model has low predictability with regards to explaining participants willingness to change their bank affiliation, it reveals the potential of a person's moral identity as an explanatory variable with regards to ethical behaviour. As

such, this study contributes to this growing area which have found that moral identity can help explain charitable donations (Reed et al. 2007) and other prosocial behaviours (e.g., Hertz & Krettenauer 2016). Future research should dig deeper into other factors which may impact bank customers willingness to change bank affiliation after money laundering transgressions.

We did not find an effect of social distance on attribution of blame, evaluation of moral wrongness or willingness to change bank affiliation. This could be due to the social distance between USA and Mexico not being large enough, or that the effect of social distance on judgment is more context dependent than anticipated. Future research should investigate whether e.g., increasing the social distance or the nature of the bank's transgression, will reveal an effect between social distance and people's judgment
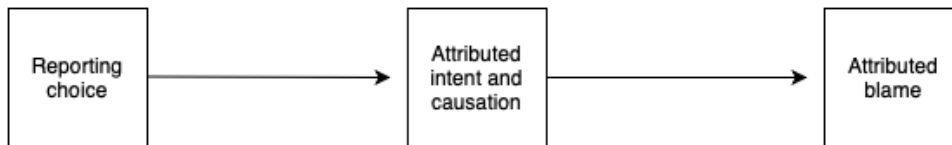
Lastly, the study had limitations which could limit the inferences that can be drawn from its result. First, Mturk-participants may not be representative of the population at large (e.g., Huff & Tingley 2015) and this study's sample is not balanced with regards to age, sex and political standing which may limit both the internal and external validity of the findings. While we did not hypothesize an interaction with regards to age or sex, the sample's imbalance with regards to our political measure may negatively affect our test of hypotheses 2b. In addition, both imbalance on age, sex and political ideology may limit the generalizability of the result to the population at large. Second, our sample consist of only American citizens, and we cannot rule out that cultural norms with regards to the financial sector and criminal or social justice could impact the external validity of our results. Future studies should address this concern, and may for example include race, nationality, or ethnicity as a covariate to investigate whether there are heterogeneity effects across these variables.

6. Figures and output

6.1 Mediation models and output

Hypothesis 1b

PROCESS-model 4 in the Hayes (2017) framework for mediation analysis: Simple mediation with one mediator. No direct effect hypothesized.

Mediation analysis (Reporting choice -> Attributed intent -> Attributed blame, with attitude measures 1-4 as covariates)

```
***************** DIRECT AND INDIRECT EFFECTS OF X ON Y ****************

Direct effect of X on Y
    Effect        se         t         p       LLCI      ULCI
    -.1607      .2978    -.5397     .5901    -.7486     .4271

Indirect effect(s) of X on Y:
          Effect    BootSE   BootLLCI   BootULCI
Intent    -.3407     .1671     -.6920     -.0266

********************* ANALYSIS NOTES AND ERRORS **********************

Level of confidence for all confidence intervals in output:
  95.0000

Number of bootstrap samples for percentile bootstrap confidence intervals:
  5000
```
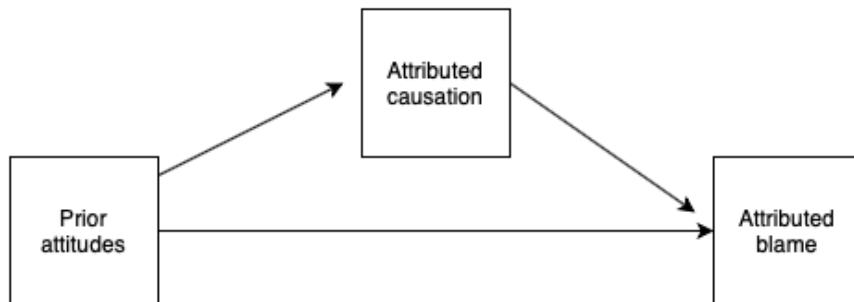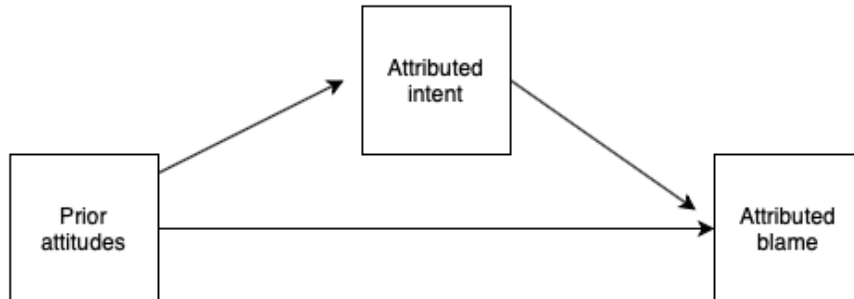
Hypothesis 1c

PROCESS-model 4 in the Hayes (2017) framework for mediation analysis: Simple mediation with one mediator. Both direct and indirect effect hypothesized.

Mediation analysis (Attitude measure 4 -> Attributed intent -> Attributed blame)

```
***************** DIRECT AND INDIRECT EFFECTS OF X ON Y *****************

Direct effect of X on Y
    Effect        se         t          p        LLCI       ULCI
     .2596      .0825     3.1483     .0019      .0969      .4224

Indirect effect(s) of X on Y:
          Effect    BootSE   BootLLCI   BootULCI
Intent     .1129    .0418      .0390      .2041

******************** ANALYSIS NOTES AND ERRORS ********************

Level of confidence for all confidence intervals in output:
  95.0000

Number of bootstrap samples for percentile bootstrap confidence intervals:
  5000
```

Mediation analysis (Attitude measure 4 -> Attributed causation -> Attributed blame)

```
***************** DIRECT AND INDIRECT EFFECTS OF X ON Y ****************

Direct effect of X on Y
     Effect         se         t          p        LLCI       ULCI
      .1609       .0758     2.1232      .0351      .0114      .3105

Indirect effect(s) of X on Y:
            Effect      BootSE    BootLLCI    BootULCI
Cause        .2115       .0577      .1063       .3303

********************** ANALYSIS NOTES AND ERRORS **********************

Level of confidence for all confidence intervals in output:
  95.0000

Number of bootstrap samples for percentile bootstrap confidence intervals:
  5000
```

Mediation analysis (Attitude measure 3 -> Attributed intent -> Attributed blame)

```
***************** DIRECT AND INDIRECT EFFECTS OF X ON Y ****************

Direct effect of X on Y
     Effect         se         t          p        LLCI       ULCI
      .3149       .0780     4.0370      .0001      .1610      .4688

Indirect effect(s) of X on Y:
            Effect      BootSE    BootLLCI    BootULCI
Intent      −.0069       .0384    −.0846       .0695

********************** ANALYSIS NOTES AND ERRORS **********************

Level of confidence for all confidence intervals in output:
  95.0000

Number of bootstrap samples for percentile bootstrap confidence intervals:
  5000
```

Mediation analysis (Attitude measure 3 -> Attributed causation -> Attributed blame)

```
***************** DIRECT AND INDIRECT EFFECTS OF X ON Y ****************

Direct effect of X on Y
     Effect         se         t          p        LLCI       ULCI
      .2011       .0717     2.8055      .0056      .0596      .3425

Indirect effect(s) of X on Y:
            Effect      BootSE    BootLLCI    BootULCI
Cause        .1069       .0526      .0070       .2127

********************** ANALYSIS NOTES AND ERRORS **********************

Level of confidence for all confidence intervals in output:
  95.0000

Number of bootstrap samples for percentile bootstrap confidence intervals:
  5000
```

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8.   Appendix

8.1 Experimental material: Conditions

<u>Condition 1: Journalist report/Low social distance</u>

Dollar Bank under federal investigation

Federal prosecutors are investigating Dollar Bank after **Wall Street Journal reported** of suspicious or illicit drug related money laundering transactions **moved through its California branch in San Diego.**

The Wall Street Journal's coverage have revealed that Dollar Bank transaction monitoring system and internal controls were inadequate to detect, identify, and report money laundering activity. In total, 50 billion dollars of drug money may have been laundered through the bank in the last decade alone, according to the Wall Street Journal.

"We will cooperate fully with the government and understand the need for absolute vigilance in our efforts to protect against money laundering," Dollar Bank's spokeswoman Vicky Arnold said.

Financial institutions such as banks, credit unions and casinos are required to establish effective anti-money laundering programs under the Bank Secrecy Act (BSA).

The BSA law also requires institutions to report any transactions bank employees deem suspicious and report movements of money involving at least $10,000.

Banks have long complained that BSA requirements are costly and time-consuming for their employees who must file numerous reports with law enforcement.

"Today an established and respected financial institution learned a valuable lesson about its legal responsibilities." said the Drug Enforcement Administration in a public statement.

Condition 2: Journalist report/High social distance

Dollar Bank under federal investigation

Federal prosecutors are investigating Dollar Bank after **Wall Street Journal reported** of suspicious or illicit drug related money laundering transactions **moved through its Mexican subsidiary.**

The Wall Street Journal's coverage have revealed that Dollar Bank transaction monitoring system and internal controls were inadequate to detect, identify, and report money laundering activity. In total, 50 billion dollars of drug money may have been laundered through the bank in the last decade alone, according to the Wall Street Journal.

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Banks have long complained that BSA requirements are costly and time-consuming for their employees who must file numerous reports with law enforcement.
"Today an established and respected financial institution learned a valuable lesson about its legal responsibilities." said the Drug Enforcement Administration in a public statement.

Condition 3: Self-reported/Low social distance

Dollar Bank under federal investigation

Federal prosecutors are investigating Dollar Bank after **the bank reported** suspicious or illicit drug related money laundering transactions **moved through its California branch in San Diego.**

Dollar Bank have reported to regulators that their monitoring system and internal controls were inadequate to detect, identify, and report money laundering activity. In total, and according to the bank's own record, 50 billion dollars of drug money may have been laundered through the bank in the last decade alone.

"We will cooperate fully with the government and understand the need for absolute vigilance in our efforts to protect against money laundering," Dollar Bank's spokeswoman Vicky Arnold said.

Financial institutions such as banks, credit unions and casinos are required to establish effective anti-money laundering programs under the Bank Secrecy Act (BSA).

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Condition 4: Self-reported/High social distance

Dollar Bank under federal investigation

Federal prosecutors are investigating Dollar Bank after **the bank reported** suspicious or illicit drug related money laundering transactions **moved through its Mexican subsidiary.**

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"We will cooperate fully with the government and understand the need for absolute vigilance in our efforts to protect against money laundering," Dollar Bank's spokeswoman Vicky Arnold said.

Financial institutions such as banks, credit unions and casinos are required to establish effective anti-money laundering programs under the Bank Secrecy Act (BSA).

The BSA law also requires institutions to report any transactions bank employees deem suspicious and report movements of money involving at least $10,000.

Banks have long complained that BSA requirements are costly and time-consuming for their employees who must file numerous reports with law enforcement.

"Today an established and respected financial institution learned a valuable lesson about its legal responsibilities." said the Drug Enforcement Administration in a public statement.

8.2 Moral identity scale

The moral identity scale as developed by Aquino & Reed (2002):

Moral Identity Measure

Listed below are some characteristics that might describe a person:

Caring, Compassionate, Fair, Friendly, Generous, Helpful, Hardworking, Honest, Kind

The person with these characteristics could be you or it could be someone else. For a moment, visualize in your mind the kind of person who has these characteristics. Imagine how that person would think, feel, and act. When you have a clear image of what this person would be like, answer the following questions.

I   1. It would make me feel good to be a person who has these characteristics.

I   2. Being someone who has these characteristics is an important part of who I am.

S   3. I often wear clothes that identify me as having these characteristics.

I   4. I would be ashamed to be a person who had these characteristics. (R)

S   5. The types of things I do in my spare time (e.g., hobbies) clearly identify me as having these characteristics.

S   6. The kinds of books and magazines that I read identify me as having these characteristics.

I   7. Having these characteristics is not really important to me. (R)

S   8. The fact that I have these characteristics is communicated to others by my membership in certain organizations.

S   9. I am actively involved in activities that communicate to others that I have these characteristics.

I   10. I strongly desire to have these characteristics.

Notes: I = internalization, S = symbolization, and R = reverse coded.