

The Rise and Fall of Normative Control*

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*Plenary address to the annual meeting of the American Accounting Association, Chicago, Illinois, August 5-8 2007. Thanks to Debra Friedman and Christine Horne for their comments on an earlier draft.

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It is difficult to overstate the importance of norms. They do nothing less than make social life possible. Without norms we would be unable to decipher the meaning of one another's behavior. Beyond their fundamental contribution to mutual understanding, norms focus and coordinate individual expectations, thereby specifying appropriate behavior in given social situations. This is an immense contribution to the attainment of social order.

Norms are rules that prescribe and proscribe behavior in specific social situations. Given the endless variety of social situations, this implies that there must be a plethora of different kinds of norms. Take, for example, lecture classes, weddings and funerals. In lecture classes, students know that they should not read the newspaper, talk out loud, or persistently focus their attention away from the instructor. At American weddings, they know that they should never wear black, flirt with the bride or bridegroom, or pipe up in response to the question "if anyone objects to this union, speak now or forever hold your peace." At American funerals, they know that they should wear black and not speak ill of the dead. Norms such as these are intuitive and instrumental: they relate to the manifest purposes of these gatherings. Thus classroom norms facilitate learning, wedding norms lend collective support to the new union, and funeral norms comfort the family, friends and colleagues of the deceased. People may not understand the rationale for norms such as these, but their compliance with them usually is conscious.

Sometimes compliance to norms is unconscious, however. Many norms operate, as it were, behind our backs. Some are so taken-for-granted that people are often unaware of their very existence, and of the reasons for their own compliance to them. Consider the behavior of two friends engaged in animated conversation waiting for an elevator in a crowded store. On entering the elevator, the friends stop talking and swivel forward to face the doors. In so doing they are complying with a norm, but they would be hard pressed to describe this particular norm. Likewise, how many people understand that they are observing a norm when they ask a passing stranger about the time, but would never enter into conversation with the stranger about any other topic (Goffman 1963)?

In the 1960s, ethnomethodologists carried out a number of breaching experiments aiming to make explicit a number of taken-for-granted conversational norms. In one such example,

The subject was telling the experimenter, a member of the subject's car pool, about having had a flat tire while going to work the previous day.

(S) I had a flat tire.

(E) What do you mean, you had a flat tire?

She appeared momentarily stunned. Then she answered in a hostile way: "What do you mean, 'What do you mean?' A flat tire is a flat tire. That is what I meant. Nothing special. What a crazy question! (Garfinkel 1967).

Violation of these taken-for-granted norms invariably generates unease.¹

Norms also differ in their degree of ambiguity. Whereas the norms for weddings and funerals are relatively fixed and unambiguous, others are anything but. When the French soccer star Zinedine Zidane gave a head butt to an Italian defender in the 2006 World Cup final, probably costing his side the championship, this focused attention on norms about trash talking in competitive athletics. Whereas verbal jousting is common in many sports, “the threshold for what is acceptable trash talking and what is intolerable vitriol is nebulous (Diamos 2006).” Likewise, the residents of upscale buildings in New York City are obliged to tip their doormen at Christmas, but determining how large a tip to give provides them with an annual headache (Bearman 2005). To the degree that norms are ambiguous, this makes normative control more of a soft than a hard constraint.

Finally, the particular content of norms varies across societies; this has been one of the leitmotifs of sociological theory (Horne 2001b). Marx and Engels discussed the norms of deference in feudal and capitalist societies (Marx and Engels 1964). Weber sharply distinguished between patrimonial and bureaucratic norms (Weber 1978). Durkheim viewed norms as preconditions for social exchange (Durkheim and Simpson 1933), and then, in *Suicide*, provided some of the first quantitative measures of their variable effects on social regulation and integration (Durkheim 1951).

One of the major causes of variation in normative content is cultural; otherwise, Irish wakes and Hindu funerals would be identical kinds of events. Norms about the appropriateness of violent behavior, for example, differ in the American North and South; in the South, violence is regarded as an appropriate response to violations of honor (Cohen and Nisbett 1997). Truth-telling is a more salient norm in the United States than in Iran (Slackman 2006). And, at least according to some measures, corrupt behavior is more acceptable in countries like Kuwait, Egypt, Chad, Sudan and Bulgaria than it is in Canada, Scandinavia, Ireland and Japan (Fisman and Miguel 2006).

The Enforcement of Norms

Like any other kind of rule, norms can only affect behavior if they are enforced. But wherein lies the source of this enforcement? Laws are enforced by a specialized agency of the state – namely, the police. State enforcement of the law is subsidized by taxation.² But how is the enforcement of social norms subsidized?

Norms must either be self-enforced or enforced by others. We may individually pay a big price for our self-enforcement of social norms – Freud certainly believed that we do

¹ This kind of normative breach is a staple in the typical routine of stand-up comics; in the comedy club setting it usually leads to somewhat nervous laughter. A large, if indeterminate, basis of all humor probably lies in the public breaching of taken-for-granted norms.

² For present purposes, I ignore the complication of tax enforcement. Suffice it to say that although states regard the paying of taxes as a normative obligation, in the absence of enforcement rates of tax compliance plummet.

(Freud 1961) – but in the eyes of others our good behavior is attained costlessly. The feelings of shame or embarrassment that would be entailed by violating norms motivate us to comply with them.

In addition to being supported by the attitudes of other people, norms are sustained by the feelings of embarrassment, anxiety, guilt and shame that a person suffers at the prospect of violating them, or at least the prospect of being caught violating them. Social norms have a *grip on the mind* that is due to the strong emotions their violations can trigger. I believe that the emotive aspect of norms is a more fundamental feature than the more frequently cited cognitive aspects. If norms can coordinate expectations, it is only because the violation of norms is known to trigger strong negative emotions, in the violator himself and in other people (Elster 1989: 99-100).

Two principal mechanisms are responsible for the internalization of norms.³ Identification with an esteemed model can lead one to internalize the model's relevant characteristics. Alternatively, internalization can result from reinforcement administered by parents, teachers, and other authorities, including the state (Hechter 1987; McAdams 1997; Scott 1971; Sunstein 1996).

Experimental economists studying ultimatum games have shown that many subjects have internalized the norm of fairness (Henrich et al. 2004). The degree of this internalization, in turn, rests, in part, on the mode of production of the relevant groups. Because it requires no societal investment and it can occur spontaneously in the course of day-to-day activities like parenting, self-enforcement is the royal road to social order. The pervasiveness of non-compliance to norms – that is, deviant behavior in all its multifarious forms – suggests, however, that that this royal road is all too frequently bypassed (Wrong 1961).

Lacking internalization, norms must be enforced socially if they are to be effective. Here we must distinguish between two different types of norm enforcement. Norms that encourage us to behave in ways that are consistent with our self interest are virtually costless to enforce.⁴ Take dress codes as an example: there is an informal rule among employees of some American firms to dress down on Fridays, and many do so. Even though this norm is a purely discretionary, it often attains a high degree of compliance. Behavior that is principally mandated by conformity follows the same logic. When Solomon Asch's subjects misreport the lengths of the straight lines he put in front of them (Asch 1951), when teenage boys sport hip-hop fashion, or when girls wear trousers that reveal bare midriffs they are all responding to informational cues in their

³ Some writers term internalized norms as values (Hechter 1992), or personal values.

⁴ These have been described as descriptive norms (Cialdini, Reno and Kallgren 1990).

environments that encourage them to conform to others' behavior, without imposing any undue personal cost (Bicchieri 2006).⁵

The norms that inspire the greatest theoretical attention, however, oblige us to act in ways that are contrary, or at least orthogonal, to our *immediate* self interest (Hechter and Opp 2001a). These are sometimes referred to as moral norms, but for reasons discussed below, this puts too rosy a face on them. Instead, I will refer to these as *obligatory norms*. We are obliged to comply with these norms not because they are in our immediate self interest, but because doing so is the right thing to do. If complying with the latest dress fashions is an archetypal self-interested norm, then the Golden Rule is an archetypal obligatory one. After all, when we follow the Golden Rule we cannot engage in behaviors – like the use of force and fraud – that might otherwise benefit us. If we find a wallet with a thousand dollars in cash, the Golden Rule obliges us to return it to Lost and Found, rather than pocket the windfall. Obligatory norms impel us to sacrifice our immediate gratification for the sake of the collective good.

Not all norms of obligation promote social order, however. Some -- those dissuading workers or students from hard work (Roy 1952; Willis 1981), or discouraging snitching among criminals – clearly detract from the attainment of social order. Typically, these norms oblige individuals to be loyal to subgroups – corrupt officials, terrorist cells, religious cults, and illegal youth gangs -- whose ends conflict with the collective good.

The Enforcement of Obligatory Norms

Since compliance to obligatory norms entails some personal sacrifice, these norms must be enforced by others. The classical sociological theorists' emphasis on norms was adumbrated in the 1950s by role theory. The fundamental idea behind role theory is that distinctive positions in society are defined normatively, and that the incumbents in these positions willingly conform to the expectations of their roles. In our everyday life, we occupy a variety of roles, each of which obliges us to adhere to specific sets of norms.

The behaviors mandated in our role as parent are quite different from those expected of us as members of competitive basketball teams. Likewise, physicians are obliged to care a great deal more about the welfare of their patients than used-car salesmen care about their clients. Unlike the latter, the former are empowered to make decisions that can have life or death consequences for patients.

What then protects the patient's welfare? In Talcott Parsons's famous account, the answer is norms. The norms that are associated each person's social role dictate their relevant behavior. The physician's behavior is supposed to be quite different than the businessman's. Whereas the businessman's role impels him to self-interested action (presumably, he is motivated to maximize his own profit), the physician's role requires him to "place the welfare of his patient above his own self-interest, financial or otherwise

⁵ I ignore the (often very real) possibility that conformity to norms about fashion imposes greater costs than deviating from them.

(Parsons 1951: 472).”⁶ Note that this argument implies nothing about the nature of out-of-role motivation. Presumably, when she is out of her office, the physician might behave in a ruthlessly self-interested manner, and the businessman might be a major donor to a charity.

Why do we expect physicians to behave differently than used-car salesmen? One possibility, of course, is due to differential internalization: perhaps physicians -- unlike used-car salesmen -- are moralists who are self-selected for their altruism. Parsons -- that avatar of normative theory in sociology -- wholly discounts this explanation, however. Instead, he regards *sanctions* as the explanation of compliance to professional norms:

For the question arises, would it really be to the self-interest of the normal physician to ignore the code of his profession and to garner the financial rewards from advertising, from increasing his practice by undercutting the rates of his colleagues, and from excluding the bad credit risks. In general ... this would not be to his interest. For such action would impinge on the interests and the sentiments of others in the situation. The consequences would take the form of a loss of professional standing which in turn would, if it went far enough, begin to show in quite tangible forms. Desirable connections from financial, as well as other points of view, would become more difficult to form, or be endangered, such as hospital staff appointments or referrals of patients from other physicians. A staff appointment might be terminated or not renewed. In the extreme case, there might be the threat of disciplinary action on the part of the medical society. All along there would be a jeopardizing of the easy informal “belongingness” to a group who understand each other as to proper conduct (Parsons 1951: 472-3).

For Parsons, then, the fear of punishment makes us comply with norms.⁷ We comply because it is in our *ultimate* self-interest to do so. We forsake our short-term self-interest for our long-term interest or, as Tocqueville put it, self-interest rightly understood.⁸ This implies that we cease to comply with obligatory norms when the sanctions weaken or disappear.

To some analysts, the sanctioning of deviant behavior is the surest evidence for the existence of a norm (Ensminger and Knight: 1987: 3). Sanctions can take a wide variety

⁶ Norms regulating physicians’ behavior date at least from the time of Hippocrates’s famous Oath. Of course, compliance with these norms is problematic, as is revealed by cases as diverse as those of Nazi medical experimentation (Lifton 1986), and the Tuskegee Syphilis Study (Jones and Tuskegee Institute. 1993). According to Lifton, the Nazi doctors convinced themselves that they were killing Jews so as to save the Nordic race. This example suggests that even the most straightforward norms -- such as the physician’s obligation to do no harm -- are subject to multiple interpretations (Hechter and Opp 2001b).

⁷ A similar reputational argument has been often repeated -- usually without acknowledgement -- in some more recent explanations of the motivation to comply with norms (McAdams 1997; Posner 2000).

⁸ “The Americans ... are fond of explaining almost all the actions of their lives by the principle of interest rightly understood; they show with complacency how an enlightened regard for themselves constantly prompts them to assist each other, and inclines them willingly to sacrifice a portion of their time and property to the welfare of the state (Tocqueville 2000).”

of forms depending on the salience of the violated norm in a given community. Thus people who eat with their hands at an American dinner party are met with gestures of disdain like eye-rolling or sour looks. Scientists who have been discovered to have falsified their data are ostracized from their profession. And accused collaborators with occupation regimes are often subjected to humiliation, physical injury (kneecapping in Northern Ireland) or death by their nationalist opponents.

Fair enough, but this solution raises a deeper issue. Why do people ever take the trouble to sanction norm violators? After all, doing so supports a public good that usually is in no single individual's interest to provide. This question has motivated a great deal of the recent research on social norms.

People may enforce norms willingly because it costs them nothing to do so. On one view (McAdams 1997: 364) sanctioning costs are minimal (or zero) because the withholding of esteem -- the fundamental sanction, according to Richard McAdams -- is costless. Likewise, some experimental evidence suggests that individuals are hard-wired to experience negative emotions when they see others free ride. These negative emotions, in turn, motivate sanctioning (Fehr and Gächter 2002). Another related possibility is that people gain psychic income from punishing free riders (Knutson 2004).

Were these explanations sufficient then there would be a great deal less deviant behavior than we actually observe. Our streets would be litter-free. People wouldn't talk in movies. The parents of children who persist in crying on airplanes, and smokers who light up in no-smoking zones would all be sanctioned. Deviant behaviors of these sorts would largely be extinguished. Since such behaviors persist, this suggests that the sanctioning of deviants is far from spontaneous and automatic (Horne 2001). Indeed, sanctioning generally incurs costs: at the very least, it consumes energy and attention that could be employed to attain other ends. The busybody victims of road rage on our highways can certainly attest to these costs. Even the promise of large pecuniary rewards provided by a patchwork of state and federal laws is often insufficient to motivate potential whistleblowers to come forward with evidence of bureaucratic malfeasance.

If sanctioning is not costless, then perhaps its cost is outweighed by some corresponding benefit. Indeed, the most popular current explanation is that people will sanction deviants because by doing so they promote the welfare of their group. This explanation, which smacks of functionalism, has both collective and individualist variants.

Assume, for instance, that global warming threatens everyone on the planet and that the immediate restriction of greenhouse gas emissions is required to protect the environment for us and future generations (Kolbert 2006). If norms arise and are enforced to promote group welfare, then will a norm against polluting be enforced? Collectivists (Demsetz 1967; Gibbs 1968) assume that this indeed will happen, but much critical analysis and empirical analysis contests this view (Bendor and Swistak 2001; Hempel 1965; Nagel 1956).

For individualists, the emergence and enforcement of norms to promote group welfare is problematic. On their view, people have an interest in regulating the behavior of other members so as to minimize negative externalities, such as behavior that contributes to global warming (Coleman 1990; Hechter 1987; Heckathorn 1988; Heckathorn 1989). This collective interest is not sufficient to motivate the sanctioning of polluters, however.

The decision to sanction depends on its net benefits to these individuals (Ostrom, Walker and Gardner 1992). Individuals, therefore, weigh the cost of sanctioning polluting behavior against the likely benefit that the sanction will bring to them with respect to the reduction of greenhouse gasses and global warming. Since the individual's net benefit of sanctioning a polluter -- say, by boycotting its products or demonstrating against it -- is negative (that is, observing the boycott is personally costly, and it cannot produce a measurable effect on global warming) no sanction will likely be forthcoming. On this individualist view of enforcement, the greater the benefit of sanctioning deviant behavior to the potential sanctioner, the more likely it will occur.

One site in which this individualist account seems to work well is in the establishment of rotating-credit associations and other types of insurance groups (Hechter 1987). Insurance groups create a common pool of members' resources and grant individuals access to these pooled resources under specified conditions (Ostrom 1990). In a rotating-credit association, individual members obtain access to the pool according to their position in the group rotation. In an insurance group, access to the pool is restricted to members who have demonstrated a loss due, for instance, to illness. Evidently, these institutions can only survive when the integrity of the common resource pool is maintained. This solution, however, requires each member to abide by the norms of the group. Compliance to these norms is increased by group solidarity. Group solidarity, in turn, is maximized when individuals are dependent on the benefits of membership and have the capacity to monitor and sanction one another's behavior. Since all the members in insurance groups have already invested funds in the common pool, each one has a pecuniary incentive to monitor the behavior of the beneficiaries, and to strongly sanction those who fail to abide by the group's norms. Sanctioning is made feasible by the relatively small size of these groups, as well as their members' roots in the community, which provides other members with a supply of hostages in the event that an individual absconds with the funds. These conditions generally do not hold in large, socially heterogeneous groups, however.⁹

Exogenous shocks -- like the availability of new technology or shifts in the composition of social groups -- can alter the net benefit of engaging in the collective action required to support the emergence and sanctioning of new norms. These shocks may affect the supply of norm entrepreneurs, and the demands of particular groups. The rise of sanctions against smoking in public places offers another example of a norm that emerges on the basis of mutual advantage (Ellickson 2001). In this case, the exogenous shock was the advent of new scientific findings about the health risks associated with firsthand and secondhand smoke. A series of norm entrepreneurs -- medical researchers and public health officials -- arise to champion opposition to smoking. They are then followed by a

⁹ For extensions of this theory to account for large-scale social order, see (Hechter and Chai 1998).

cadre of self-interested leaders, such as non-smokers suffering from lung disease. These leaders, in turn, are rewarded by appreciative medical and public health experts. Media personalities and other influential actors join the bandwagon, and after an indefinite period of time the new norm emerges as support cascades.

This analysis has its own logical and empirical limitations, however. Logically, it hinges on strong, and questionable, assumptions about individual beliefs and common interests (Hechter and Opp 2001b). Empirically, it fails to explain why antismoking norms have given way to antismoking laws, suggesting that informal sanctioning was inadequate to curtail smoking in public places. It does not explain why new scientific information about the consequences of risky sexual behavior has not led to comparably strong norms in this arena. Nor does it explain why norms that clearly do not contribute to collective welfare – such as honor killing (Wikan 2002) -- are nonetheless enforced.¹⁰ Presumably, such norms are imposed by powerful males on relatively powerless females in traditional societies, but despite this, females often enforce them.¹¹

Establishing new norms – like that against smoking – occurs gradually in many stages, all of which are crucial for the norm's emergence. Clearly establishing new norms is problematic. Recognition of these limitations has led to a renewed emphasis on the role of interdependence in the sanctioning of norms. It has long been thought that the members of highly solidary groups will be more willing to sanction deviants than the members of less cohesive groups (Homans 1950; Homans 1974). Yet, the members of such groups also may be less likely to sanction deviants because the costs of offending a close friend outweigh the benefits of the sanction to the potential sanctioner (Flache and Macy 1996). To make matters more complex, there is some empirical evidence for both of these opposing arguments.

Metanorms are another mechanism that has been proposed for the enforcement of norms (Axelrod 1986). Metanorms are second-order norms that tell people what behaviors they should or should not sanction in a given situation. To the degree that metanorms are effective, those who sanction deviants will be rewarded, and those who fail to do so will themselves be sanctioned. Hence, metanorms offer onlookers an incentive to sanction deviants (Horne 2001a). Although there is some evidence supporting this conjecture (Axelrod 1986; Bendor and Swistak 2001), what then is responsible for the enforcement of metanorms? The same arguments that have been marshaled for the enforcement of norms – that is, a concern for group welfare, and the effects of interdependence – have been redeployed to account for the enforcement of metanorms. Some experimental research designed to test these alternative accounts lends greater support to the interdependence mechanism (Horne 2007). Despite this, one is left with the nagging suspicion that the analysis of the enforcement of metanorms may lead to an infinite regress.

¹⁰ One recent analysis suggests that the allocation of rival rewards (as against collective goods) in groups with strong peer influence leads to antisocial norms that diminish members' welfare (Kitts 2006).

¹¹ Coleman (1990) terms these kinds of norms disjoint, as distinct from the conjoint norms that are imposed by peers.

The Decay of Obligatory Norms

Is it more difficult to establish new norms than to destroy existing ones? On the face of it, the evidence is mixed. Take, for example, the persistence of norms encouraging poor performance in public schools (Willis 1981) and female genital cutting (Mackie 1996). Both norms would seem to harm the welfare of the very people who readily comply with them. Yet concerted efforts on the part of states, schools and non-governmental organizations to weaken these norms have not been particularly successful. Both of these welfare reducing norms appear to have remarkable staying power. At the same time, there is widespread concern that many socially beneficial norms have recently begun to decay. A large academic industry has arisen to document, and debate, the erosion of civic norms (Putnam 2000).

To this point, the conditions for the enforcement of obligatory norms has been discussed as if people are only faced with the choice of compliance or non-compliance with a single norm, or set of norms. To the degree that people are subject to conflicting norms, however, the normative landscape becomes much more complex. A standard example is the conflict between an individual's obligations to work and family. To which of these conflicting norms, if any, will individuals comply? If this choice is determined on the basis of net benefit, then the normative obligations which comes with the greatest sanctions for noncompliance will assume pride of place. This principle can account for the decay of professional norms.

Recent widely-publicized failures in medicine (billing scandals at prominent medical schools) and accounting (the fall of Enron, Tyco and MCI-WorldCom, among other firms) have also raised questions about the withering of the professional norms which Parsons once heralded. Like today's American physicians, accountants are the agents of two principals. Physicians serve their patients, but are generally paid by insurance companies or Medicaid. Accountants serve their clients and are paid by them, but they are also responsible to regulators who represent the investing public. Since principals and agents have different interests, compliance is problematic in all agency relationships (Jensen and Meckling 1976; Kiser 1999). In general, the agent's compliance to the principal's directives is best assured by designing and implementing incentive-compatible contracts.

This solution is unavailable, however, when the agent is simultaneously responsible to two principals having divergent interests. In the case of medicine, many patients want the very best care, cost be damned, but insurers – who are inevitably concerned with the bottom line -- seek to minimize these costs. What then are physicians to do? Which of these two principals will exercise dominant influence on their behavior? If physicians are the typical rational egoists found in economic models (Hechter 1994), the answer lies in their relative dependence on each. The greater the dependence of an agent on her principal, the greater the influence of that principal. Since insurers pay the bills, physicians should be most responsive to their interests. The rise of the ten-minute doctor's visit in the United States lends much credibility to this theory.

The Rise and Fall of Obligatory Norms in Professional Accounting

The saga of Arthur Andersen, a firm founded in 1913 by a young Northwestern University accounting professor of notable personal rectitude, illustrates the rise and fall of obligatory norms. As legend has it, Andersen – then a principal of a small start-up accounting firm -- noticed an irregularity in the books of one of his clients, a large railroad company. The company had not properly accounted for maintenance charges that should have been noted as part of the firm’s operating expenses. After pointing out the error, Andersen received no response. He then threatened the president of the firm that he would be forced to reveal the inappropriate accounting in his report. The president personally came down to Andersen’s office and demanded that he approve the books or lose the firm as a client. Even though Andersen’s firm was in no position to lose such an important client, Andersen reportedly replied, “There’s not enough money in the city of Chicago to induce me to change that report (Toffler and Reingold 2003)!” In a 1932 lecture, Andersen stated that

If the confidence of the public in the integrity of accounts’ reports is shaken, their value is gone. To preserve the integrity of his reports, the accountant must insist upon absolute independence of judgment and action. The necessity of preserving this position of independence indicates certain standards of conduct (Toffler and Reingold 2003).

The firm that Andersen and his successors built spent a great deal of effort and resources on recruiting, training and socializing its employees to norms about integrity, independence and stewardship.¹² Initially these activities took place in a Chicago hotel, but in 1970 the firm bought a defunct college campus in St. Charles, Illinois. There, in addition to their training in accountancy, the new recruits learned to dress alike, how to behave in public, and to eat lunch at restaurants (where they could be seen by potential clients). This training not only created skilled accountants, but it also turned out reliable Andersen people (known internally as Androids).¹³ This was important because

Andersen, like other professional service firms, made its money by using young, low-paid staff to do the majority of the work. It was a risky proposition: if you couldn’t trust those people to do the right thing, the entire model would collapse. But if you put them all into a laboratory and ensured that they would emerge more similar than different, you had something special. “It was our intent to create a

¹² “That single maxim, ‘Think straight, talk straight’ was the touchstone of the Firm. Arthur Andersen, partners would say with pride, was a place where integrity mattered more than fees, where standing up for what you believed in was a virtue, where it was better to the right thing than the easy thing. Andersen and his successor, Leonard Spacek, were portrayed, almost cartoonlike, as heroes of American capitalism, men who stood p for the investing public and men who understood that for a professional services firm, reputation was the only thing that mattered (Toffler and Reingold 2003: 12).”

¹³ “At St. Charles, everything was predetermined. The rooms were bare, and there was no phone or TV. They were not supposed to stay in their rooms, but to mingle with others. Even the partners stayed in these Spartan quarters, giving the newbies an opportunity to meet with potential mentors. The experience was much like boot camp, and at the end it led to a high sense of solidarity (Toffler and Reingold 2003).”

group that was very interchangeable,” said former partner Victor Millar. “One of our selling points was if we had a partner who got hit by a truck, we had ten others who could do the same... We understood the problem of groupthink, but on the other side, it allows you to build a very, very profitable model (Toffler and Reingold 2003).”

The culture of Arthur Andersen was extremely hierarchical; deviance from corporate norms simply was not tolerated. Compliance to the norms that were hammered into new recruits at St. Charles was enforced by a patronage structure. New hires were instructed to find a mentor to guide them in their pursuit of corporate advancement. As in any patronage system, the beneficiaries’ dependence on their patrons encouraged loyalty and a consequent unwillingness to challenge directives from their patrons. By following these tenets the firm thrived, becoming the largest accounting firm in the world.

However, this exceptionally successful firm came to an abrupt and inglorious end. After the demise of a number of high-profile American firms in 2002 -- many of which had hired Arthur Andersen to do their books -- the firm was forced out of business. Andersen’s modern-day accountants had allowed Enron and its other star clients to seriously overestimate their net worth in their public accounts. This was precisely what the firm’s founder had refused to do back in Chicago ninety years previously.

What was responsible for the erosion of Arthur Andersen’s norms of integrity and public service? The principal causes were technological change and macroeconomic fluctuations. The digital revolution was one factor. Some visionaries within the firm who foresaw the importance of computer technology initially urged Andersen to invest in the consulting business. As public corporations increasingly invested in costly new computer systems, demand for technological advice soared, and Andersen Consulting, an early entrant in this niche, soon became the industry leader.

Consultants’ normative obligations differ from those of auditors, however. Consultants only serve one principal. They are merely obliged to promote their clients’ welfare. Accountants, however, provide service to two different principals – their clients and the investing public, as represented by government regulatory bodies. Accounting firms must maintain a bright line between internal and external auditing. In external auditing, an independent auditor examines a firm’s financial statements in light of a series of accepted standards (Generally Accepted Accounting Principles [GAAP], or International Financial Reporting Standards [IFRS]). Internal auditing, often carried out by auditors employed by the company, serves to provide information for the use of managers.

What is likely to happen if the same accountancy firm conducts internal and external audits for a corporate client? The principal to whom the auditor is most dependent is likely to have the greatest influence. That is, in a contest between the hiring firm and the investing public, the auditor should be more responsive to the hiring firm (which pays the bill) than to regulators or the investing public.¹⁴

¹⁴ This is because state regulators are often captured by the very industries they are charged to regulate (Peltzman 1989; Stigler 1964).

Andersen's consulting business grew at a much faster pace than the auditing business. As Andersen Consulting became the major economic engine within the firm, the norms of consultants begin to trump those of accountants. Whereas the auditing part of the firm originally subsidized the consultants, soon the consultants came to subsidize the auditors. They increasingly resented this subsidy and their persistent under-representation on the corporate governing board, seeking to secede from Arthur Andersen.¹⁵ Not surprisingly, the solidarity of the firm suffered apace.¹⁶

After a long period of contention, the two units of Arthur Andersen submitted their conflict to binding arbitration, and on January 1st 2001 Andersen Consulting – under its new name Accenture – seceded on terms that were highly unfavorable to the original firm. If this analysis is correct, then the enforcement of accountants' professional norms should have rebounded. That this did not occur owes to a shift in market conditions..

The revenues of the rump firm -- now minus the subsidy from Andersen Consulting to which the accountants had grown accustomed -- lagged well behind its competitors. Worse, the breakup coincided with a downturn in the market for corporate auditing due to the end of a boom in mergers and acquisitions. Facing enormous competitive pressure, the firm's principals were highly motivated to retain their star clients. Thus declining mergers and acquisitions sharply increased the firm's dependence on one set of principals – major clients -- at the expense of regulators and the investing public. The result was that Arthur Andersen colluded with the corrupt managers of Enron and other major clients to overstate their financial health. This is consistent with the prediction that agents are most responsive to the principals upon whom they are most dependent. After the inaccuracy of their accounting reports came to light, the firm was forced out of business.

What appears to have been an unshakeable commitment to professional norms is, in fact, highly contingent on internal conflicts, competing norms and macroeconomic conditions. On the heels of a wave of accounting failures and massive losses to shareholders and employees, Congress enacted legislation subjecting the entire accounting industry to the heightened regulation of the Sarbanes-Oxley Bill.¹⁷ This serves as a reminder that norms are not the only means of regulating behavior. The market and law are alternatives.

The Market, Norms, and the Law as Sources of Social Order

¹⁵ “By the 1990s a former Andersen Consulting partner complained ‘If you wanted to know what it felt like to be a black person sitting in the back of the bus, go be a consultant at Arthur Andersen (Toffler and Reingold 2003): 83).’”

¹⁶ “The brutally competitive atmosphere within the Firm made a mockery of its principles and of its culture... The air was so thick with internal tension that it seemed hard, some days, even to breathe (Toffler and Reingold 2003).”

¹⁷ The Sarbanes-Oxley bill provides for accounting standard oversight, bans auditors from supplying other services, and requires audit committee board members to be independent company directors. The law also requires corporate chief executive and financial officers to attest personally, with their signature, to the accuracy of their firm's financial reports.

Obligatory norms are fundamental to social order, but social order can also be produced by markets and the law (Hechter and Horne 2003). The costs of these alternative mechanisms of order differ significantly, however. Markets are presumed to be the least costly mechanism because they are self-organizing and self-enforcing, once their preconditions have been established, (Hayek 1973). Norms are second best because they offer the promise of decentralized enforcement by peers. When norms fail – as in the case of Arthur Andersen – the remaining remedy is state-enforced law.

Individual action in markets is guided, if not wholly determined, by relative prices. And prices are not limited to pecuniary indices; an individual's or firm's reputation for integrity, for example, can figure into the relative price of the choice of a service. When the parties to a voluntary exchange in the market have full information about their options, they are capable of looking out for their self interest by heeding the maxim, *caveat emptor*. Norms have a small role in this kind of marketplace, and the role of police – that is, the designated enforcers of the law -- is limited to that of enforcing contracts (Nozick 1974).

Even in advanced capitalist societies, however, perfect markets are the exception rather than the rule. When an exchange is characterized by imperfect or asymmetric information, the efficiency of markets suffers (Coase 1988; Williamson 1975). In the well-known example of the market for lemons (Akerlof 1970), the potential buyer of a used car cannot ascertain if the owner is motivated to sell the vehicle because it is a lemon. Only the owner knows the true condition of the car. Due to asymmetric information, sellers receive a diminished price for a product or service even when it isn't a lemon, but this is an inefficient outcome.

When markets fail, obligatory norms can be a substitute (Arrow 1971; Ellickson 1991) . Sick people cannot optimize their treatment on their own because they lack the necessary expertise to appraise their medical situation; they rely on doctors for these decisions. Likewise, the investing public has no means of assessing the relative viability of firms; they rely on accountants to provide the relevant information. But accountants are not always motivated to provide accurate reports because they can be dependent on their major clients.

Law is the most costly means of attaining social order.¹⁸ Laws are explicit, written rules that are promulgated and enforced by specialized political authorities. The sanctions called forth by legal violations are also explicit: murder merits one kind of sanction, assault another, burglary a third. Policing, litigation and the administration of a justice system are among the very great costs of legal enforcement. In societies that principally rely on the enforcement of norms rather than the state for contract enforcement, like

¹⁸ “It is noteworthy how strongly the main reliance for control is placed on “informal” mechanisms. The law of the state includes severe penalties for “malpractice” and medical associations have relatively elaborate disciplinary procedures, but these quite definitely are not the principal mechanisms which operate to ensure the control of self-orientation tendencies (Parsons 1951: 463-4).”

Japan, there are relatively few lawyers and lawsuits (Haley 1991). Efficient monitoring mechanisms in Japan are also a key factor in its low crime rate (Hechter and Kanazawa 1993).¹⁹

The Andersen case reveals that high professional solidarity is required for compliance to corporate norms. In Arthur Andersen, solidarity was initiated by a socializing institution akin to boot camp, and enforced by the sanctions provided by a rigid system of patronage. The rise of Andersen Consulting diminished firm solidarity by exempting consultants from the St. Charles boot camp experience, and by inspiring intergroup competition in the firm.²⁰ Professional norms went further by the wayside when the firm faced with sharply declining resources, for then the temptation to engage in opportunistic – that is, deviant -- behavior escalated. Since the downturn in mergers and acquisitions at the turn of the century narrowed the market for other accounting firms as well, similar – if less dramatic -- many of Andersen's competitors suffered similar normative lapses as well.

Like American medicine, accountancy has been a largely self-regulating industry.²¹ The decay of professional norms in accounting curtailed self-regulation, eventually leading to the passage of the Sarbanes-Oxley Bill.²² Likewise, when anti-smoking norms proved insufficient to prevent smoking in public venues, the result has been increasing anti-smoking legislation.

Conclusion

Whereas some kinds of norms merely ratify our own selfish instincts, obligatory norms urge us to forego self-interested action for the sake of some collectivity. That collectivity can be as exclusive as a family, or as inclusive as the entire world. These kinds of norms affect behavior by altering the expected consequences of given courses of action. But behavior will only be altered when these obligatory norms are enforced. Hence, the heart of normative analysis rests in enforcement. In general, obligatory norms can be enforced by internalization and by sanctioning. Internalization is by far the most efficient means of enforcing norms for it does not depend on the actions of others, but it is unreliable when

¹⁹ Of course, in stateless societies, where there is no law, markets cannot exist. In these circumstances norms are the principal source of social order, as is illustrated in the famous discussion of the institution of the leopard-skin chief among the Nuers (Evans-Pritchard 1944).

²⁰ A similar analysis of competition between solidary groups may account for high levels of corporate corruption in Japan (Miller and Kanazawa 2000).

²¹ Theoretically, American accounting firms are regulated by the Securities and Exchange Commission. However, since they are also major campaign contributors, prior to the collapse of Enron, Congress was loath to exert much discipline over them.

²² The costliness of this legal remedy to normative failure has yet to be fully determined, but the initial signs are not promising. Ironically, the greater reporting standards required by this legislation has raised the demand for accounting services, providing a windfall to the accounting industry. But this new reporting burden may discourage investment in American firms relative to their counterparts elsewhere. If so, the ultimate consequence of the decay of norms in the accounting industry may turn out to have dampened American economic growth.

it conflicts with self interest. Absent internalization obligatory norms must be enforced socially. But why does anyone willingly bear the cost of sanctioning another's deviance? The most robust answer is that in some circumstances, sanctioning provides people with a net benefit. These circumstances are most likely to arise in highly solidary groups.

When new firms attempt to establish a reputation, the cost of cheating – producing low quality goods, producing low quality audit reports -- is very high. To succeed, the new firm must get its employees to comply with corporate norms even when doing so conflicts with their immediate self interest. Once that reputation is established, however, cheating is somewhat less costly. Under especially adverse conditions, norms are not robust. Whereas the content of professional norms is constant, enforcement – and, therefore, compliance – is highly sensitive to economic conditions.

The Andersen case suggests that the simple hierarchy of markets, norms and law may require some revision. The Sarbanes-Oxley Bill undoubtedly entails many other costs, but by prohibiting auditing firms to engage in consulting, it may also lead to a resurgence of professional norms among accountants. In this way, ironically law may reduce the demand for state enforcement.

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