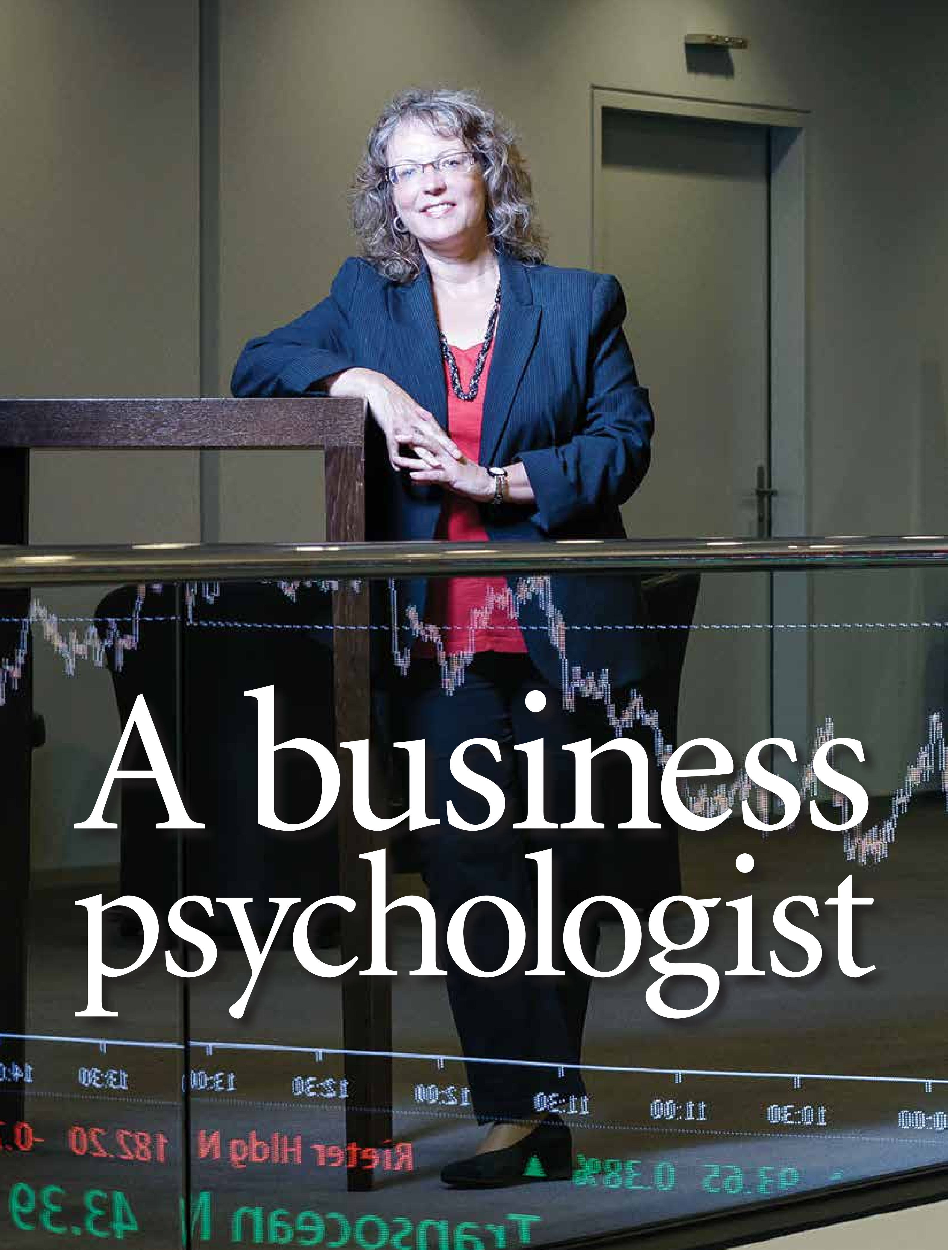

A business psychologist

Carmen Tanner, PhD, explores the intersections of psychology and finance.

When the 2008 financial crisis rocked the world's economies, it wasn't just economists who wondered what went wrong. "It was obvious to me that psychology should also try to contribute to understanding how this could happen and what we can do to prevent further such crises," says Swiss psychologist Carmen Tanner, PhD.

Hers were no idle musings. In 2011, she helped found the Center for Responsibility in Finance at the University of Zurich. The center, which Tanner directs, has four aims: researching what conditions hinder or facilitate responsible financial practices, developing ethics "toolkits" to promote good behavior at the individual and organizational levels, advising businesses on ethics and promoting education in responsible finance and management.

Dollar or psychological signs? In the aftermath of the financial crisis, economists, politicians and others have focused on economic issues. That's not enough, Tanner says. "There are psychological mechanisms that contributed to the problem, including the fact that people tend to underestimate risks and the system's complexity," she says. Some in the financial community have begun to recognize these psychological factors. In fact, the center owes its creation to two professors from the University of Zurich's department of banking and finance. When Tanner became a psychology professor at the university in 2004, her office was in the same building as the department of banking and finance. As she and her new colleagues got to know each other and their work, they decided to collaborate, and the center was born.

Micro versus macro. "The goal of the center's research is to better understand why people behave in ethical or unethical ways," says Tanner. But while economists and other financial types typically look at the macro level, Tanner focuses on the individual level. Take the question of why people behave honestly or dishonestly when it comes to financial decision-making. "Financial people believe that honesty is just a question of the consequences, with people behaving honestly when honesty pays off," explains Tanner. Thanks to her psychological training, Tanner speculated that there was more to it than that. In a paper published in the *American Economic Review* in 2013, she and colleagues confirmed their hypothesis that it's not just a matter of creating incentives for honest behavior; they found that some people are just more committed to truthfulness. "They feel committed to the value of honesty, with the result that they're more resistant to and less influenced by financial incentives," she explains. "They're also more resistant to the influences of social pressure, when, for instance, there's a social norm saying dishonesty is acceptable."

Practical tools. Tanner and her colleagues are also developing ethics toolkits that will help assess individual moral competence and organizational culture, information that could provide the basis for education and training on how to avoid ethical pitfalls. "We need instruments to help measure such dimensions and make them more visible," Tanner says. The center also consults with firms to identify their ethical strengths and vulnerabilities. Tanner recently worked with staff at a large bank, for example, explaining how research shows that conflicts of interest can very subtly change people's judgment and behavior.

A multidisciplinary approach. Tanner's interest in other disciplines was apparent from the beginning of her academic career. At the University of Bern, where she earned her doctorate in psychology in 1995, she applied psychology to the problem of how consumers perceive environmental problems and make environmentally friendly decisions. She continued to be interested in ethical decision-making during three years spent as a postdoctoral research fellow at Northwestern University.

Psychology students interested in working at the intersection of psychology and finance should start working with other disciplines early on, advises Tanner, who also teaches undergrads and graduate students as a professor of business psychology at the University of Zurich. "Open-mindedness is also very important," she says. "Bringing diverse competencies together is important."

Collaborations like Tanner's are the wave of the future, predicts Atlanta financial psychologist Mary Gresham, PhD, who is among those leading a call for establishing an APA division of financial psychology. "There are a fair number of psychologists who collaborate with economists and business school professors," Gresham says. "It's becoming more mainstream." The urgency of avoiding another financial collapse underscores the importance of such collaboration, she adds. "Psychologists should absolutely be involved because human behavior is connected to all these problems," she says.

— REBECCA A. CLAY

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