Ethics in economic decision-making

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Chapter 5

General Discussion

The aim of the current dissertation is to obtain more insights on ethics in economic decision-making. There are many ethical standards to which we can adhere (e.g., the do-no-harm principle, Baron, 1995; 1996; the equal division rule, Messick, 1995), but these standards are also frequently violated. What makes us to decide not to adhere to the standards? And how do we react when people violate these standards? To answer these questions, I combined the ethics literature with the literature on economic games and game theory. Economic games provide useful paradigms to study self-interest and fairness, which are essential motivations underlying the ethical dilemma in economic decision-making (e.g., De Dreu & Carnevale, 2003; Handgraaf, Van Dijk & De Cremer, 2003; Loewenstein, Thompson, & Bazerman, 1989; Van Dijk & Tenbrunsel, 2005). Over the course of nine experiments, I investigated the role of ethical standards in negotiations (Chapter 2 and 3), and how people in distributive settings react when ethical standards are violated (Chapter 4). Below, I will give an overview of the main findings.

Overview

In the first empirical chapter, I studied the influence of initial ownership on bargaining behavior and the underlying processes. To do so, I introduced the giving, splitting, and taking UBG. In the giving UBG, allocators had to give parts of their initial endowment to the recipient, whereas in the taking UBG, allocators had to take parts of the recipient's endowment. I predicted and found that offers to the recipient were highest in the taking UBG and lowest in the giving UBG. This game type effect was mediated by feelings of entitlement which allocators did not want to infringe on. Moreover, this effect was not affected by the availability of strategic options as provided by deception or power. These results suggest that allocators were reluctant to take property from recipients, because they genuinely felt that the recipient was entitled to the property. This is consistent with the do-no-harm principle (Baron, 1995; 1996), which means that people are reluctant to harm another party to benefit themselves.

In Chapter 3, I focused on the influence of outcome valence (i.e., allocating gains or losses) to further investigate the role of ethical standards in bargaining. I introduced the negatively valenced UBG in which people bargain over a loss instead of over a gain, and compared this game to the traditional, positively valenced game on three aspects: fairness accessibility, norms, and behavior. I showed that after observing an unequal offer benefiting the allocator, fairness was more accessible in the negative UBG than in the positive UBG. Moreover, this unequal offer was perceived as less appropriate in the negative UBG than in the positive UBG. Finally, allocators in the negative UBG made an (almost) equal offer to the recipient independent of whether they were high or less dependent upon the recipient's behavior. Additional measures showed that allocators in the negative UBG were less influenced by self-interest and more by fairness than allocators in the positive UBG. In sum, the results of Chapter 3 showed that people were more reluctant to let the recipient pay more to benefit themselves. This was again in line with the do-no-harm principle.

Chapters 2 and 3 showed that people are strongly influenced by ethical standards in distributive settings. In Chapter 4, I focused on how people react when these standards are violated by distinguishing between punishing the person causing the injustice and compensating the person suffering from the injustice. Past research has mainly focused on punishment, and little is known about compensation behavior. I developed the altruistic compensation game to study compensation behavior and to directly compare it to altruistic punishment behavior. I showed that people are willing to altruistically compensate a person suffering from distributive injustice, even when they could also punish the person causing this injustice. Moreover, empathic concern moderated the preference for compensation or punishment. High empathic people preferred compensation over punishment, whereas low empathic people preferred punishment over compensation. In sum, Chapter 4 showed that observers of distributive injustice are willing to give up own endowment to restore inequality, either by punishment or by compensation.

Is this dissertation about games or about ethics?

To study the role of ethical standards in economic decision-making, I used economic games. More specific, I introduced the giving, splitting, and taking UBG in Chapter 2, the negative valence UBG in Chapter 3, and the altruistic compensation game in Chapter 4. One might be tempted to conclude from this, that this dissertation was all about games. However, I argue that the

focus was not on understanding games, but on studying ethical behavior in economic decision-making by means of these games. In other words, by using economic games and by developing new games, I was able to gain better insights in the psychological processes underlying economic decision-making in controlled and clear settings. There are many more examples of paradigms which were not created for the sake of creating a new game, but to enhance our understanding of economic decision-making and the underlying processes. Below, I briefly give some examples to show how games can help us in psychological research, and how these games compare to the ones used in the current dissertation.

Power-to-Take game

To study the role of emotions in rejecting offers, Bosman and Van Winden (2002; 2005; see also Bosman, Sutter, & Van Winden, 2005) introduced the Power-to-Take Game (PTT game). Similar to the UBG, there are two players, both endowed with a certain amount of money. In the PTT game, proposers indicate a percentage of how much they want to take from the responder (i.e., the take rate). Next, responders can destroy (parts) of their endowment. The more responders destroy of their endowment, the lower the proposer's absolute payoff will be. By giving the responder a continuum of responses instead of the dichotomous response in the UBG (accept vs. reject), the PTT game provided the possibility "to learn more about how subjects trade off emotional satisfaction of punishment against monetary gain" (Bosman & Van Winden, 2002, p.148). Results showed that the more negative emotions responders experienced, the more responders were willing to destroy parts of their endowment. Note that the PTT game structurally differs from the taking UBG introduced in Chapter 2. In the PTT game only the responder's endowment is at stake, and not the proposer's endowment. Moreover, recipients cannot reject the decision of the allocator, but can only destroy parts of their own endowment.

Offer en demand games

Mitzkewitz and Nagel (1993) introduced the offer and demand games to study ultimatum bargaining with uncertainty (see also Rapoport & Sundali, 1996; Rapoport, Sundali, & Seale, 1996). In both games, the recipient does not know the exact pie size (only a certain range) whereas the allocator does. In the offer game, recipients only learn how much the allocator offers to them, and not the size of the residual for the allocator is. In the demand game, recipients only learn how much the allocators take, and do not know how much they are

offered. The uncertainty in offer and demand games results in more ambiguity of what exactly fairness is, and gives insight on how people deal with this ambiguity. Results showed that offers to recipients are lower in the demand game than in the offer game. These results were explained in terms of what allocators expect recipients to motivate their acceptance or rejection of the offer. More specifically, Mitzkewitz and Nagel (1993) argued that in the offer game, allocators anticipate that recipients will accept half of the cake they expected. On the other hand, in the demand game, allocators anticipate recipients to be resistant to visible unfairness, and therefore reject all offers of which recipients are certain that it is less than half of the cake. In other words, uncertainty influences how people perceive the situation, and how they anticipate on the other's behavior.

Although the offer and demand games might at first glance resemble the giving and taking UBG, they are in fact not the same. The offer and demand games were introduced to study the role of uncertainty and ambiguity, whereas in the giving and taking UBG, there is no uncertainty. These latter games, I introduced to study the role of initial ownership.

Dictator game

The recipient in a dictator game has no say whatsoever about the offer of the allocator. Consequently, the dictator game is a game in which strategic motivations (e.g., fear of rejection) cannot play any role at all. This clearly differs from the traditional UBG, in which the allocator's payoff is highly dependent upon the recipient's behavior. Other paradigms have been developed to lower this dependency, and thus to make recipients less powerful (Fellner & Güth, 2003; Suleiman, 1996), but in these games allocators still are to some extent dependent upon the recipient. Although it seems plausible to reason that the less powerful a recipient is, the lower the allocator's offer will be, research showed that situation in which recipients have (some) power are fundamentally different from situations in which recipients are completely powerless, i.e in the dictator game (Handgraaf, Van Dijk, Wilke, Vermunt, & De Dreu, 2008; Van Dijk & Vermunt, 2000). More specifically, by comparing 'less power' situations and powerless situations, Handgraaf et al. (2008) showed that powerless situations evoke a norm of social responsibility, whereas in 'less power' situations people may enter the bargaining with a strategic mindset. Dictator games therefore fundamentally differ from ultimatum bargaining settings in which recipient's do have (some) influence on the final outcome.

Note that these games, despite their simple and clear structures, do not always resemble real-life negotiations or other economic decision-making situations. I would like to argue that this is not necessarily a problem. Changing and developing new games gives researchers the possibility to obtain more insight in the process of decision-making which otherwise would be difficult. And although I provided only few examples of economic games, it already illustrates the large variety of psychological concepts (e.g., emotions, uncertainty, power) for which these games can be used.

Motives of Self-interest and Fairness

When people face an ethical dilemma, like they do in negotiations (e.g., Aquino, 1998; Tenbrunsel, 1998), they have two competing motivations: furthering their own self-interest vs. adhering to norms of ethics and fairness. The literature on UBG started out by the prediction based on classic game theory, thereby assuming rational allocators and recipients. Rational allocators should make the smallest possible offer (but not a zero offer), and recipients should accept this small offer. However, first results on UBG behavior showed that the modal offer was an equal split of the pie (for reviews, see e.g., Camerer & Fehr, 2006; Handgraaf, Van Dijk, & De Cremer, 2004), suggesting that fairness motivated bargaining behavior and not self-interest. Later studies which manipulated the information level (Kagel, Kim & Moser, 1996; Van Dijk & Vermunt, 2000) or the dependency relation (Fellner & Güth, 2003; Suleiman, 1996) showed that allocators were strategically fair, i.e., they only wanted to appear fair instead of being truly fair. These results suggested that people are mainly motivated by self-interest.

From the above, one might get the impression that it is either fairness or self-interest that dominates in bargaining. The results of Chapter 2 and 3, however, show that *both* aspects influence bargaining behavior. More specifically, in Chapter 2 the effect of initial ownership was independent of the effect of information level and dependency. Analyses showed that feelings of entitlement mediated the initial ownership effect, whereas strategic concerns (e.g., self-interest and fear of rejection) mediated the information level and dependency effect. These results show that both self-interest and fairness can simultaneously affect bargainers. Moreover, in Chapter 3 the moderating effect of valence on the dependency effect was mediated by the importance of both self-interest and fairness. The results did not show that in the negative valence UBG, self-interest did not play a role at all, or that it was only fairness

underlying the allocator's offers. It is, therefore, important to study which factors influence the relative importance of fairness and self-interest (see also Van Dijk, Leliveld, & Van Beest, 2008).

The relative importance of self-interest and fairness is also in line with the literature on the social utility model (Blount, 1995; Handgraaf, Van Dijk & De Cremer, 2003; Loewenstein, Thompson, & Bazerman, 1989; Van Dijk & Tenbrunsel, 2005). According to the social utility model, there are two sources of utility that are of interest in situations of allocating resources: the absolute utility and the comparative utility. The absolute utility refers to one's own outcomes, and can be seen as the self-interest component. The comparative utility refers to one's own outcome compared to the other's outcome, and can be seen as the fairness or comparative component of the social utility model. Both utilities can independently of each other influence economic decision-making. This makes it relevant to focus on the relative importance of both aspects when studying economic decision-making.

In a similar vein, my results are in line with the dual concern model (Pruitt & Rubin, 1986, see also De Dreu & Carnevale, 2003; De Dreu, Weingart & Kwon, 2000; Pruitt & Carnevale, 1993). This model states that in problem-solving situations, like negotiations, there are two concerns: the self-concern and the other-concern. The self-concern is the extent to which people are willing to work for their own interest and outcomes. The other-concern is the concern about the other party's outcomes. According to this dual concern model, both types of concerns can independently affect negotiation behavior. The results in the current dissertation seem to suggest that changing the perception of initial ownership, or the outcome valence affects the other-concern. That is, by changing these factors, I showed that people became more other-oriented when being in a taking or loss frame. My results did not show that self-interest did not matter at all in these situations. In other words, also the dual concern model suggests that it is the relative importance of self-interest and other-interest that is important to focus on when one wants to understand economic decision-making.

Altruism

To study how people react on violations of ethical standards, like the equal division rule, I developed the altruistic compensation game and compared compensation behavior with altruistic punishment behavior. This created the possibility to directly compare punishment and compensation behavior, and to

better understand the underlying motives of these reactions to norm violations. However, because I studied observer's willingness to give up money for compensation and punishment, I also contributed to the explanation of altruism. The concept of altruistic punishment has two components, i.e., altruism and punishment. When explaining why people are willing to give up money (i.e., being altruistic), Fehr and colleagues turned to the motivations for punishment (Fehr & Fischbacher, 2003; 2004; Fehr & Gächter, 2002). Punishment is a way to give persons violating the rules what they deserve, and to deter them from doing it again in the future (e.g., Carlsmith, 2006; Carlsmith, Darley, & Robinson, 2002; Darley & Pittman, 2003). The altruistic behavior, i.e., the willingness of outsiders to give up own endowment to punish, was therefore explained in terms of enforcing social norms (Fehr & Fischbacher, 2003; 2004; Fehr & Gächter, 2002).

However, altruistic compensation cannot easily be explained in terms of norm enforcement. Compensation is directed towards the person suffering from injustice, and not towards the person violating the norms. Altruistic compensation and altruistic punishment have in common that they both restore injustice. More specifically, they both restore the unequal distribution of endowment. I argue that it is this common factor on which we should focus when trying to explain the observed altruism in Chapter 4 and in altruistic punishment game (Fehr & Fischbacher, 2004). Altruistic punishment might thus not (only) be motivated by norm enforcement, but (also) by people's preference for equality (see also Allison & Messick, 1990; Fehr & Schmidt, 1999; Messick, 1993; 1995).

Implications and Future Research

The results presented in the current dissertation showed that ethical standards like the equal division rule and do-no-harm principle are important standards to which people adhere, even if this behavior is not in line with their self-interest. In the next part, I will discuss the implications for the decision-making literature and give suggestions for future research.

Do-no-harm

The underlying rationale of the do-no-harm principle was important in studying the role of initial ownership (Chapter 2) and valence (Chapter 3). This principle was originally introduced by Baron (1995; 1996). He showed that people who were placed in the role of a benevolent dictator of an island were

reluctant to benefit one group of constituents when this implied harming the other group. In other words, the do-no-harm principle was first shown in a situation in which outsiders made a decision for others, and whose decision did not influence their own outcome. In subsequent research, Van Beest, et al. (2003; 2005) showed that this do-no-harm principle also applied to people whose own outcomes were at stake. This research showed that people were less willing to exclude a player from a coalition when this implied a loss for the excluded player rather than when exclusion implied no gain for the excluded player. The research described in the current dissertation extends this research as I focus on dyad bargaining situations in which exclusion cannot play a role. When allocating resources, allocators are also influenced by the perception of how harmful self-interested behavior would be. In the taking UBG, allocators perceive the chips to be entitled to the recipient, and consequently perceive self-interested behavior (that is, taking a lot for themselves) as inappropriate. Therefore, they refrain from excessive taking behavior. Similarly, allocators in the negative valence UBG perceive that allocating a loss to another person is less appropriate than withholding a gain in the positive valence UBG, and therefore decide to make an equal offer in the negative valence UBG, even when the other person has almost no influence on the final outcome. In sum, presenting a situation with a "harm" frame (i.e., either a take or loss frame) can have strong effects on allocating and bargaining decisions, as people are reluctant to benefit themselves when this implies that another party gets harmed.

Knowing the consequences for the other

Chapter 2 and Chapter 3 showed the relevance of the do-no-harm principle in bargaining situations. In both the taking UBG and the negative valence UBG the consequences of allocators' behavior for the other party were clear. Taking from, or allocating a loss to the recipient, would decrease the recipient's payoff, but would increase the allocator's outcome. This increased the concern for the other's outcome. Therefore, from a managerial perspective, these results suggest that it might be helpful to present decisions in negative outcomes or taking frames to enhance the concern for others. Note that people should know the consequences of their behavior for the other party. If these consequences are less clear, we might expect that people take a more self-oriented perspective on giving vs. taking, and positive vs. negative outcome valence. This self-oriented perspective, based on loss aversion (which we also

explained in Chapter 2 and 3), would suggest that people might become more self-interested in a loss-frame or taking UBG. Research on multi-issue negotiation (e.g., Bazerman, Maggliozi, & Neale, 1985; De Dreu, Carnevale, Emans, & Van der Vliert, 1994; Neale, Hubert, & Northcraft, 1987) indeed showed that negotiators demanded more and conceded less in negatively framed negotiations than in positively framed negotiations. In these situations it can be argued that the consequences of people's decisions for the other party are less clear than in the ultimatum bargaining setting in which I studied these framing effects. Future research in ambiguous situations could help to shed more light on the relationship between knowing the consequences of one's behavior for others and the concern for others.

Empathy and perspective-taking

In all three chapters, the concern for the other played an important role. Related to this concern for others is the literature on empathy and perspective taking (e.g., Batson, 1991; Batson, Batson, Todd, Brummett, Shaw, & Aldeguer, 1995; Batson, Early, & Salvarani, 1997; Batson, Klein, Highberger, & Shaw, 1995; Davis, 1983; Eisenberg & Miller, 1997). Empathy can be described as a concern for other people (Eisenberg & Miller, 1987), and has been related to a higher willingness to help others (e.g., Batson et al., 1995; 2003; Davis, 1994; Dovidio, Piliavin, Schroeder, & Penner, 2006). In Chapter 4, I showed that empathic concern also influenced people's willingness to punish and compensate.

Perspective taking, on the other hand, is the cognitive ability to view the world from someone else's perspective (Davis, 1983). Batson et al. (2003) had people choose between a task in which they would get a high payoff and the other nothing, and a task in which both would get a moderately good offer. People, who were instructed to take the perspective of the other person, chose more often for the both equal payoff task than for the task favoring themselves. Similarly, Van Beest et al. (2005) showed that people were less willing to exclude another player in the loss frame than in the gain frame, and that this effect was strongest for those who scored high on a perspective taking scale (i.e., perspective taking was measured as a personality variable). People who took the other's perspective thus ended up with lower outcomes. Galinksy, Maddux, Gilin, and White (2008) also studied perspective taking in (multi-issue) negotiation and showed that "perspective taking increased individuals' ability to discover hidden agreements" (p.378). In other words, Galinsky et al. (2008)

showed that perspective taking helped people to see find the compatible interests in a negotiation in which these interests seem to conflict at first glance. Moreover, when people took perspective they both created and claimed more resources. In their study, they also studied the role of empathy, which did not yield these positive effects.

Both empathy and perspective taking seemed to influence decision-making. Because ethical decisions are strongly related to how one should treat other people, feelings of empathy and perspective taking can be important factors influencing the willingness to adhere to the do-no-harm principle or the equal division rule. In this dissertation, empathy affected the willingness to altruistically punish or compensate. Future research could further our understanding of adherence to ethical standards by studying the effects of both empathy and perspective taking on economic decision-making.

Ethical climate

The ethical climate in which decisions are made (e.g., in organizations, and politics) influence to what extent ethical standards are important to adhere to (e.g., Aquino, 1998; Tenbrunsel & Messick, 1999; Tenbrunsel, Smith-Crowe, & Umphress, 2003). Tenbrunsel et al. (2003) introduced the term ethical infrastructure to describe elements within an organization that influence ethical decision-making. One of these elements is the (formal and informal) sanctioning system. Tenbrunsel et al. (2003) refer to these sanctioning systems as systems "that directly associate ethical and unethical behavior with […] rewards and punishments, respectively" (p.288). Note, however, that unethical behavior does not only refer to individual decisions, but also to decisions which directly involve other people. In these latter cases, unethical behavior (almost) always implies that there is a person responsible for the unethical behavior, and a person suffering from this behavior. A system only focusing on the person causing the injustice might not be perceived as sufficient from this victim's perspective (DeCarufel, 1981; Gromet & Darley, 2006). The research on punishment and compensation I presented in the current dissertation adds to this literature as it emphasizes the importance of also including the possibility to compensate the victim. Put differently, besides rewarding ethical behavior and punishing unethical behavior, it may be worthwhile to also include compensations for victims of unethical behavior in an ethical climate.

The question now rises how the implementation of compensation and punishment might influence the ethical infrastructure. Darley and Pittman

(2003) have argued that the willingness to punish and compensate differs depending on the severity of the behavior, and that the severity of the behavior is dependent on the extent to which a person intentionally or recklessly caused injustice. In general, Darley and Pittman (2003) argued that intentional and reckless behavior gets punished (possibly accompanied with compensating the victim), whereas non-intentional behavior gets compensated. But if this is true, it might be argued that using one of the two approaches (i.e., compensation or punishment) might also influence how the severity of certain behavior is perceived. That is, based on Darley and Pittman (2003) one can argue that when certain behavior leads to punishment, this might be perceived as more severe than when that same behavior leads to compensation. Future research might focus on this communicating role of compensation and punishment in ethical decision-making.

Conclusion

This dissertation shed more light on the interplay of self-interest and ethical motivations in economic decision-making. Combining the literature on ethics with the literature on economic games showed how valuable economic games can be when studying human behavior and its underlying processes. The experiments described in this dissertation showed that people are strongly influenced by generally held ethical standards of conduct, and want to restore justice when these standards are violated.