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### Ethical decision making: on balancing right and wrong

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## Summary

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While we like to consider ourselves honest, most of us lie sometimes. Many situations provide us with private information which we may use to benefit ourselves on the expense of others around us. We may exaggerate an insurance claim, under report our earnings when filing taxes, keep to ourselves some hidden defect in product we try to sell to others, or pick a pen from work when our kid needs it for a school assignment. However, in most of these cases we often restrict the amount of our lies. Exaggerating an insurance claim by describing an old item as brand new may seem ethically legitimate but faking a complete claim or adding non existing items to the claim may seem ethically illegitimate. “Forgetting” to mention a defect in a product we try to sell may feel rather honest but “forgetting” to mention more defects may feel rather dishonest. When we make decisions in this “gray area” of ethicality we definitely draw a line between benefiting ourselves and being honest. This dissertation focused on the question – where do we draw this ethical line? That is, how do we balance right and wrong?

We study this type of ethical decision making not only because of pure scientific curiosity, but also due to its societal importance. From a societal perspective, small lies of individuals sum up to enormous collective costs. Many people around the globe under report their taxes (Levi, 2010, Stack & Kposowa, 2006), download media illegally (Miyazaki, Rodriguez & Langendefter, 2009), steal items from their workplace (Mazar, et al., 2008), and exaggerate on their insurance claims (Tennyson, 2008). While these behaviors might be considered as minor dishonest acts, their accumulated impact on our economies is huge. As reviewed in the introduction to this dissertation, such small lies cost billions of Euros (and Dollars) from our national budgets.

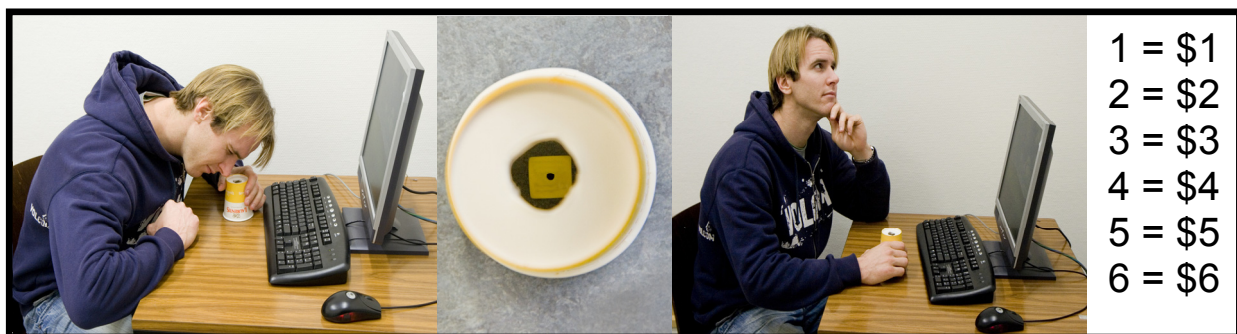
Here we adopt a theoretical approach that does not prescribe what is ethically right or ethically wrong, but rather describes how people behave in ethically challenging situations. This behavioral ethics approach suggests that lying is not a behavior performed by only a selected few ‘bad apples’ but rather by people from all walks of life. This descriptive approach focuses on identifying situations which influence people’s likelihood to behave unethically (De Cremer, 2009). We employ experimental paradigms used in social psychological as well as in behavioral economic research and confront participants in our studies with tempting decisions that would influence the amount of money they would earn. We create settings that allow us to study how people balance their two conflicting desires - serving their self interest and maintaining a view of themselves as honest people. We propose that when challenged with such ethical decision people strike a balance between the materialistic (e.g., money)

and psychological (e.g., increased status if not caught) benefits the lie provides with its materialistic (e.g. punishment) and psychological (e.g. inability to see oneself as an honest) costs.

### Empirical findings

The first two empirical chapters of the dissertation focus on situations in which one may dishonestly use the private information he or she possesses to benefit on the expense of an institution at large. We used a simple task to see to what extent people would lie. We gave people a regular six face die placed under a paper cup with a small hole in the top, and asked them to shake the cup and check what the outcome they rolled is. We further asked them to report to us this outcome and gain money as a function of what they reported rolling (see the Figure below). Thus, people rolling had private information about the value of their role and they could lie about this value and earn more money than they were supposed to. To further insure that these people were not worried that their actual role would be discovered (after they leave the room), we instructed them to roll the die a couple of more times to verify that the die was legitimate. This insured them the outcome of the first roll was for their eyes only. Indeed, only the people rolling and peaking into the cup knew what they rolled. We assessed lying indirectly by comparing the distribution of all reported outcomes in the study to the distribution of expected reports if people were reporting honestly. That is, a fair die rolled enough times should result in a uniform distribution of outcomes (i.e., a similar amount of 1's, 2's, 3's, 4's, 5's and 6's).

### Die under cup task



As mentioned above, people tend to avoid lying too much, that is, to use major lies. The idea behind such behavior is that people lie for profit but avoid such lies that would make them feel as liars. Indeed, employing a similar version of this die rolling task, Fischbacher and Heusi (2008) found that many people prefer lying by using the

second highest available option although they would gain more by reporting the highest option. This and other past work reviewed in this dissertation suggests that people avoid major lies. It is however unclear whether people suffer a psychological cost from the mere act of lying. That is, if people are just trying to avoid feeling as liars they should avoid major lies but use all other profit boosting lies, even if they generate marginal increase in profit. In contrast, if people suffer a psychological cost from lying, such minor compensation would not be sufficient to balance the psychological cost the lie exerts. To test which of these possibilities is true, in Chapter Two, we allowed people to roll the die in settings which provided them with what we termed middle-of-the-road lies. Such middle-of-the-road lies allowed them to dishonestly boost their profit while not lying too much and not lying for very little amounts. Other people rolled the die in settings that did not include such middle-of-the-road option, and if choosing to lie for profit they had to choose between lying a lot or for very little. Result of experiment 2.1 revealed that people avoided both major and minor lies but used middle-of-the-road lies. When people did not have such middle-of-the-road option, we found no evidence for lying. This finding suggests that people do suffer a psychological cost from the mere act of lying. If the profit generated by the lie is sufficient to compensate for this psychological cost, people would lie to benefit themselves. However, when the compensation is not sufficient, people would lie much less.

An additional interesting finding in this chapter was that people who had the middle-of-the-road option, and on aggregate used it to lie for money, also tended to justify their behavior by describing it as a morally appropriate way to gain money. This latter finding about the relation between lying and justifications led us to develop the hypothesis that people would benefit from having a justification when they are placed in an ethically challenging situation. Specifically, as people seek to feel honest but also to gain money, a justification may provide a solution satisfying both needs. We predicted that people would use justifications to boost their profit as using justifications allows people to lie for money while feeling honest.

Results of Experiment 3.1 suggested that the degree of lying depends on the extent to which lies can be justified. One group of people was allowed to roll the die three times to verify that it was legitimate, but only the first roll was supposed to “count”. In this situation we found statistically significant evidence that people lied. The distribution of reported outcomes was different than the distribution expected if people were reporting honestly. More interestingly, we found evidence for justified lying, meaning that people seem to report the highest outcome of the three rolls they observed even though they knew that only the first roll counts for pay. Specifically, we

compared the distribution of reported outcomes to the theoretical distribution that would be predicted if people choose the highest of the rolls they saw. To imagine this theoretical distribution consider that observing the value '1' as the highest value in three rolls occurs only if one observes '1' three times (a probability of 1 in  $6^3 = 216$ ) while seeing '6' as the highest value occurs much more often (in 91 of 216 combinations) while all other value (2 to 5) fall in between these probabilities. Indeed, supporting our prediction, we found no difference between the reported distribution of outcomes and the theoretical distribution of choosing the highest value of the three rolls.

To gain further support to our prediction, that people dishonestly use the values they saw on the rolls that were not meant to "count", we ran another experimental condition. This time, allowing people to roll only once. In this condition, people tested a set of dice together with other people before beginning the task. They then receiving a die under a cup, rolled only once, disposed of the die privately and then reported what they rolled. In this condition people lied less. That is, when they did not observe more rolls they lied less than people who observed more rolls and had a way to justify their lies. Results of three additional experiments (3.2, 3.3 and 3.4) suggested that observing extra rolls, which in many cases include values that are higher than the roll that counts for pay, attenuates the extent to which people perceive a lie as unethical. A lie that matched a value that was observed on the rolls that were not meant to "count" for pay was perceived as less of a lie compared to other lies that did not match the observed rolls. A lie that cannot be justified simply feels more dishonest. We suggested that observing what we termed 'desired counterfactuals' (i.e., desired pieces of information that is better than factual reality) modifies ethical perceptions and behavior. Furthermore, we found that the modification in the extent to which the lie is perceived to be unethical partially mediate peoples reported likelihood to use such lie themselves. That is, when we have a justification we are more likely to lie because such lie does not feel as unethical to use.

In Chapter Four we studied whether people maneuver towards or away from social situations allowing them to use their information advantage to deceive another person in order to benefit themselves. To study this question we employed asymmetric information Ultimatum Bargaining Game and provided people with the option not to enter the game. The Ultimatum Bargaining Game is an economic situation in which two people take decisions influencing their monetary outcomes. One person is assigned to be the proposer who offers a division of a commodity (e.g., chips to be converted to money) to another person, a responder, who can accept or reject the proposed division.

If the responder accepts, the commodity is divided as proposed but if the responder rejects, neither party receives anything (Güth, Schmittberger & Schwarze, 1982). We used an asymmetric information version of the game (Kagel, Kim & Moser, 1996). While the proposer always had information about the value of the goods to be split (i.e., chips) the responder had no such information. We manipulated temptation by varying the value of the chips for the responder to be equal vs. lower than their value to the proposer. When the chips were worth the same amount to both proposer and responder, an offer that seemed fair (e.g. splitting the chips 50%-50%) was actually fair (e.g. equal money split if the offer is accepted). However, when the chips were worth more to the proposer, an offer that seemed fair (e.g. splitting the chips 50%-50%), was actually not (if accepted, the proposer would get twice as much money compared to the responder). Thus, in this latter game but not in the former one, proposers could use their private information about the value of the chips to deceive their responders by making an offer that appeared fair while it was actually not. We tested whether and why people would avoid (or alternatively approach) situations that might tempt them to deceive another person.

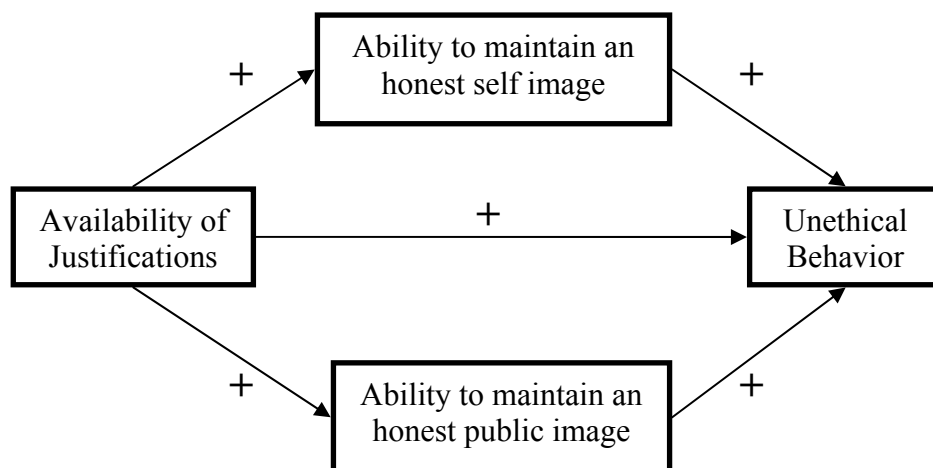
Results described in Chapter Four suggest that temptation pushes people away from negotiating with others. This is because in such cases people seek to avoid taking control over the other person's fate. In three experiments (4.1, 4.2, and 4.3) we found evidence that reduced desire to control the other person's fate and be responsible for this person's outcome serve as a situation selection mechanism, assist people to avoid tempting social interactions. Results show that people avoid situations in which they can benefit themselves by privately deceiving another person into a disadvantageous position. In Experiment 4.2 we found that this tendency is stronger (weaker) when the partner was described as cooperative (competitive). Experiment 4.3 showed that decreased willingness to be in control of another's fate leads people to avoid tempting situations rather than to approach situations allowing them to be generous. Interestingly, those who actively decided to negotiate behaved more generously than others who are forced into a similar (tempting) setting. Our conclusion from these results was that fate control serves as a situation selection mechanism assisting people in avoiding situations that tempt them into unethical and socially inappropriate behavior.

### **Justified ethicality**

The current dissertation studied how people balance right and wrong. Integrating the obtained results I proposed in Chapter Five a theoretical model of

justified ethicality. This model (see figure below) proposes that the likelihood that one will behave unethically is a function of the availability of justifications. Specifically, when being honest is costly (i.e. when one's self-interest is served by lying) people are more likely to be dishonest when justifications are available. Having a justification to lie is functional as it allows one to serve self-interest without appearing or feeling dishonest. In this situation, when dishonesty is beneficial and justifications are available people are likely to lie due to (1) the modification in how people consider that their behavior would appear honest in the eyes of others and (2) the modification in people's feeling about what they perceive to be honest behavior. That is, justifications influence lying because they allow people to maintain not only an honest public image but also an honest self image.

### Justified Ethicality Model



### Conclusion

Possessing private information allows people to dishonestly benefit themselves on the expense of others. While evidence for dishonesty in society is clear, people often lie in modest ways. Using minor lies allows people to simultaneously benefit financially while feeling honest. However, these minor dishonest acts cost a fortune to society. It is thus important to advance our understanding about factors that influence people's likelihood to use such type of minor dishonesty. Here we provided evidence that people suffer a psychological cost of the mere act of lying, that they use justifications as these allow them to dishonestly gain money while maintaining feeling honest, and finally that people are averse of social situations which allow them to use their information advantage to deceive other people in order to profit themselves. People clearly engage



in ethical balancing between what feels ethically right and what feels ethically wrong. This dissertation provides insight into the way that people strike the ethical balance between what feels right and what feels wrong.