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## Two- rather than one-way streets: Agents as causal forces in principals' unethical decisions

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## ABSTRACT

Models of diffusion of responsibility suggest that principals will avoid direct moral responsibility by hiring agents to act unethically on their behalf. The current research goes beyond the research on the diffusion of responsibility by investigating the influence of agents' character on principals' moral choices. Study 1 allowed principals to choose an honest or dishonest agent. The results indicated that having the opportunity to choose dishonest agents, regardless of the agents' ultimate intentions for their previous lies, increased the likelihood that principals would subsequently hire the agents to lie on their behalf to harm others. Study 2 was designed to avoid potential self-selection effects by randomly pairing principals and agents; it found that observing agents telling harmful black lies or seemingly harmless white lies led to increased immoral actions by their principals. Our results contribute to the literatures on moral diffusion and principal-agent relationships by revealing some of the inherent dynamics in the principal-agent moral interactions.

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*"I think they (HSBC) were a tax avoidance and tax evasion service."*—Richard Brooks, Former tax inspector

## 1. Introduction

In February 2015, leaked secret bank account files revealed that HSBC's private Swiss bank colluded with many of its super-rich clients from 2005 to 2007 to help them evade taxes and conceal millions of dollars of assets. These extremely wealthy clients included prominent businessmen and celebrities around the world, as well as international criminals and individuals facing allegations of drug-dealing, corruption, and money laundering (Leigh et al., 2015).

This example represents the diffusion of moral responsibility in principal-agent relationships. Research on the diffusion of responsibility also suggests that people often feel less responsible for their own behavior when they are part of a group than when they are acting by themselves (Darley, 2000). Thus, principals can try to maintain their moral innocence by hiring agents to engage in ethically questionable actions for them, thereby shielding themselves from direct moral responsibility (Bartling and Fischbacher, 2012; Erat, 2013; Hamman et al., 2010). Even when a lie is detected, principals may be able to deny responsibility and avoid punishment by blaming their agents' actions (Hill, 2015).

Models of diffusion of responsibility, however, do not explain *when* principals are more likely to hire agents to lie or cheat for them. Wanting an agent to lie or cheat does not mean that principals will unselectively ask an agent to lie for them.

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Intuitively, principals may be more likely to collude with agents who have flexible or pragmatic morals. In the HSBC scandal, for example, many rich clients may have colluded with the bank to dodge taxes because the bank proactively marketed tax avoidance schemes. In other words, an agent's shady character may invite collusion from unscrupulous principals. As a result, devious principals may be more likely to hire devious agents to lie for them and honest principals may be more likely to hire honest agents to tell the truth. Thus, even in the moral realm, we suggest that birds of a feather will flock together.

Although this conjecture is intuitively appealing, it lacks adequate empirical evidence and, theoretically, it can be challenged. For instance, previous research does not consistently categorize people as liars or truth-tellers (Gibson et al., 2013). Instead, lying can be both contextual and malleable as good people sometimes lie and liars sometimes act honorably (Gneezy et al., 2015). Second, liars may also differ from each other because not all lies are selfish (Bok, 1989). Instead, perhaps the most common lies are white, with people often telling them to help or avoid harming their targets (Bok, 1989; Erat and Gneezy, 2012). Altruistic liars often do not benefit from their own white lies. In contrast, black liars lie in pursuit of their self-interest at the expense of others. Thus, people who lie may have very different motivations (Erat and Gneezy, 2012). Finally, people also conform to their environments. As the old saying goes, if you live with a lame person you will learn to limp. Thus, interactions with selfish liars may negatively influence good people. In particular, an agent's moral character may influence their principals, or vice-versa.

Thus, this research investigates the (indirect) influence of agents on principals' moral choices. Collusion and delegated deception are not unusual in principal-agent relationships. Principals may often choose to hire an agent to lie or cheat for them because doing so can deflect their moral responsibility. We suggest that principals not only influence agents, they can also be influenced (sometimes indirectly) by their agents. Specifically, we investigate whether agents' lying affects principals' likelihood of ordering agents to lie in another task.

We expect that principals will be influenced by an agent's lying, even indirectly. When agents lie, it signals that their moral character is not exemplary – they are willing to lie. In contrast, when agents tell the truth even a lie would be advantageous to them, it signals that their moral character may be exemplary as they have complied with ethical principles. We suggest that these signals will influence their principals' moral choices in their future interactions. In particular, we predict that knowing that an agent has previously lied in another context will encourage principals to ask the same agent to lie for them. Black and white lies, however, may send different signals about an agent's moral character because white lies are often told to help rather than to hurt others. Thus, we expect that principals may respond differently when agents tell black vs. white lies.

We investigate these predictions in two laboratory experiments. The first experiment allowed principals to choose different types of agents to examine how having the opportunity to choose a lying vs. an honest agent in three different black and white lying contexts might affect principals' moral decisions in a subsequent task. To reduce the effects of self-selection, the second experiment randomly paired different principals and agents to investigate whether an agent's lying in a different context influenced principals' moral decisions in subsequent principal-agent interactions. The results from the two studies consistently suggest that either choosing a dishonest agent or simply observing an agent's previous lying in a different task increased principals' likelihood of asking the agent to lie for them. As one of the first empirical investigations of the effects of agents on principals, this research provides new insights into delegated deception in principal-agent relationships; it also has practical implications for understanding the dynamic moral interactions between principals and agents, especially the (indirect) influences of agents on principals, in organizations.

### 1.1. Delegated deception and moral responsibility

In principal-agent relationships, principals delegate work and at least some decision-making authority to agents because the latter can provide a variety of benefits such as knowledge, skills, networks, information, and/or connections. Principals may also hire agents strategically – to engage in objectionable activities that they would like to avoid because doing so shifts their feelings of moral responsibility (Bartling and Fischbacher, 2012; Erat, 2013; Hamman et al., 2010; Sutan and Vranceanu, 2015). In particular, by hiring agents to do dirty work, principals can preserve a semblance of moral innocence by blaming agents for their bad deeds and the related moral responsibility (Coffman, 2011; Hill, 2015; Oexl and Grossman, 2013).

Diffusion of responsibility models also suggest that it may be easier for agents to accept and follow principals' unethical orders because they are merely taking orders instead of initiating any unethical action. However, not all agents are willing to act as their principal's accomplice (Sutan and Vranceanu, 2015): some of them either refuse to comply with their principals' unethical orders or they deceive their principals via covert non-compliance (Hamman et al., 2010; Wang and Murnighan, 2015), especially when they can justify the double deception and have delegated decision-making authority themselves. Thus, although hiring an agent to engage in deception can help principals avoid or diffuse direct blame and accountability (Bartling and Fischbacher, 2012; Coffman, 2011; Oexl and Grossman, 2013), agents may not always behave as expected.

### 1.2. Lying as a signal of agents' character

Thus, although the diffusion of moral responsibility models suggest that principals will delegate the authority to act unethically to an agent when they can, this general prediction does not capture the complexities of principal-agent moral interactions. The current research goes beyond the diffusion of responsibility models by investigating how the match of prin-

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