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## The influence of emotions on trust in ethical decision making

### Abstract

This paper attempts to delineate the interaction between trust, emotion, and ethical decision making. The authors first propose that trust can either incite an individual toward ethical decisions or drag him or her away from ethical decisions, depending on different situations. The authors then postulate that the feeling of guilt is central in understanding how trust affects the ethical decision making process. Several propositions based on these assumptions are introduced and implications for practice discussed.

**Keywords:** ethical decision making, emotions, trust, economics, organizational behavior.

**JEL Classification:** M21.

### Introduction

People within an organization make an enormous number of decisions every day. Some of these have a bearing on moral issues and perhaps even on ethical dilemmas. However, in organizations, few individuals have the freedom to make ethical decisions independent of organizational pressures (Selart, 2010; Ferrell, Fraedrich & Ferrell, 2011). As a result, the decisions are often subject to stress (Selart & Johansen, 2011). The ethical decision making process within and between organizations is thus influenced both by individual and organizational factors. This is particularly true for the evaluations of, and intentions behind, decisions that produce ethical or unethical behavior (Ferrell et al., 2011; Selart & Johansen, 2011). From this follows that ethical decision making within and between organizations does not solely depend on personal values and morals of individuals. For instance, a manager driven by honesty, fairness, and equity has to understand the diverse risks associated with complex financial instruments. For this reason, both personal accountability and business competence are important pillars or micro-foundations of ethical decision making in organizations (Ferrell et al, 2011). In the present article, we intend to focus our attention on the personal accountability dimension.

It is difficult to describe exactly how any individual or team make ethical decisions. From this point of view, generalizations must be made about typical behaviors within organizations (Selart, 2005). Such generalizations can be established taking into account previously published and accepted research in the field. This is the approach taken in the current article.

The article attempts to examine the role of trust in ethical decision making. Trust is imperative for holding organizations and their members together. It creates confidence and helps to strengthen relationships. To be able to function well, an

organization is dependent on many people who must trust and be trusted (Ferrell et al., 2011). Ethics is essential in creating the necessary trust between two parties in a transaction. A central scope of the article is thus if the outcome of the decision making process will be more or less informed by ethical values at the presence of trust. Another important scope is to find out whether or not emotions play a crucial role in the interaction between trust and ethical decision making. It has previously been established that emotions play a crucial role in trust-based decisions (Allwood & Selart, 2010; Lee & Selart, 2012).

### 1. Ethical decision making

Unethical decision is either illegal or morally unacceptable to the larger community (Jones, 1991). However, not all the people who make unethical decisions are driven by unethical beliefs or judgments. In other words, individuals who possess ethical beliefs may occasionally make unethical decisions that lead to unethical behaviors. According to Trevino (1986), ethical judgment is only a necessary but not sufficient condition for moral behavior. In line, Jones (1991) indicates that a person with a well-developed sense of moral reasoning will not necessarily have great ability to act morally. Obviously, factors other than ethical beliefs are suspected of influencing ethical behavioral intentions (Vitell, 2003). One of these factors that has been found to moderate the relationship between ethical beliefs and ethical decisions is the relationship with other people (see also Loe, Ferrell, & Mansfield, 2000; O'Fallon & Butterfield, 2005; and Tenbrunsel & Smith-Crowe, 2008, for reviews).

According to Ferrell and Gresham (1985), ethical/unethical behavior is learned in the process of interacting with persons who are part of intimate personal groups or role sets. This proposition was supported by a survey of marketing practitioners done by Zey-Ferrel, Weaver and Ferrel (1979). The survey discovered that perceptions of what peers did

were found to be better predictors of ethical or unethical behavior than the respondent's own ethical belief. In another study, young managers indicated they would go along with their superiors in matters related to judgment of morality. In short, this shows that relationships with other people may sometimes override a person's own beliefs in making ethical or unethical decisions. Additionally, we propose that it is the quality of an interpersonal relationship that determines the intensity of the moderation between ethical beliefs and ethical decisions (see also Loe, Ferrell & Mansfield, 2000; O'Fallon & Butterfield, 2005; and Tenbrunsel & Smith-Crowe, 2008, for reviews).

## 2. Trust and ethical decision making

One important factor that decides the quality of relationship between individuals is trust. According to Rousseau, Sitkin, Burt and Camerer (1998), trust is defined as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another" (p. 395). Because of the willingness to accept vulnerability, one may compromise one's own ethical beliefs when trust with another party is involved. For example, a manager receives a recommendation letter from his friend to hire a candidate. After an interview, the manager discovers that the candidate is under-qualified for the position involved. The manager believes that it would be unethical if he decides to give the position to this candidate. Nonetheless, he may eventually hire the candidate because he trusts his friend. In other words, the trust with his friend leads him to accept the risk that his performance may be adversely affected by the hiring.

In other occasions, however, trust may help individuals to uphold ethical decision making. For example, even though a bank manager can make more profit by selling sub-standard bonds, she decides not to do it because she knows that her customers trust her. As these two examples illustrate, trust can affect ethical decision making in both positive and negative directions. In order to systematically predict how trust affects ethical decisions, it would be conducive first to scrutinize the different dimensions of trust.

According to McAllister (1995), there exist two dimensions of trust; the cognitive and the affective dimension. Trust is cognitive-based when a person has good reasons to trust another party, and these good reasons constitute evidence of trustworthiness. Mayer, Davis & Schoorman (1995) summarize trustworthiness in three main areas: ability, integrity, and benevolence. Ability means that

individuals possess a group of skills, competencies, and characteristics in some specific domain and they are trusted because of their technical competence in that domain. Integrity implies that a person believes other parties will adhere to a set of principles that the person finds acceptable. Both ability and integrity belong to the cognitive dimension of trust.

Benevolence, on the other hand, belongs to the affective dimension. Benevolence is the extent to which a person believes that other parties will do good to him or her, aside from egocentric profit motive (Mayer et al., 1995). Affective trust is characterized by the strong emotional bonds that are developed between parties through the constant expression of care and concern during their repeated interactions (McAllister, 1995; Erdem & Ozen, 2003; Johnson & Grayson, 2005; Webber, 2008). People make emotional investments in trust relationships, believing in the intrinsic virtue of such relationships and in that these sentiments are reciprocated. Such kind of trust can often persist on a long-term basis (Webber, 2008). In reality, individuals can have affective trust relations with one another independent of if cognitive trust is at hand or not. Affective trust without cognitive trust means that individuals trust each other without good reasons, apart from the emotional bonds developed among themselves.

Among the three dimensions of trust mentioned, integrity is the most closely one related to ethical decision making. According to Mayer et al. (1995), integrity precludes principles such as profit seeking at all costs. Rather, integrity comprises issues such as the consistency of the trustee's past actions, credible communications about the trustee from other parties, the belief that the trustee has a strong sense of justice, and the extent to which an individual's actions are congruent with his or her words. As a result, it is likely that trust based on integrity will enhance ethical decision making because the parties involved believe that the other side will act on their own moral beliefs.

It must be noted that also other dimensions of trust have influence on ethical decision making. However, to analyze the process of such influence, it is imperative to first understand the role of the feeling of guilt in ethical decision making and interpersonal relationships.

## 3. The feeling of guilt

Guilt can be defined as an individual's unpleasant emotional state associated with possible objections to one's own actions, inaction, circumstances, or intentions. It is an aroused form of emotional distress that is distinct from fear and anger and

based on the possibility that one may have acted wrongly (Baumeister, Stillwel, & Heatherton, 1994, p. 245). Since ethical decision making is about right and wrong, guilt is likely aroused when an individual believes that a decision is unethical but decides to act anyway. For example, a manager may believe that it is unethical to dismiss a senior employee just because the employee is entitled to an above-average salary. If the manager finally decides to do so, it is likely that he may experience the feeling of guilt. In reality, it is quite likely that this manager might have anticipated that he will experience the guilt feeling even before he eventually carries out the decision. It has been argued that people sometimes choose one alternative over others in a questionable situation because they want to avoid guilt feelings (Baumeister et al., 1994; Tangney & Dearing, 2002). A study carried out by Steenhaut and Van Kenhove (2006) indicates that a consumer's ethical beliefs influence, directly and indirectly, ethical behavioral intentions though anticipated guilt feelings.

On the other hand, guilt also arises when individuals evaluate their behavior as a failure in interpersonal relationships (Lewis, 2004). This is something that happens between people rather than just inside them (Baumeister et al., 1994). When an individual inflicts harm or distress on a relationship, a feeling of guilt will be the result (Berndsen, Pligt, Doosje, & Manstead, 2004). People have been reported feeling guilty more frequently due to interpersonal concerns rather than due to violating norms and standards (Baumeister, Reis & Delespaul, 1995). In line, Steenhaut and Van Kenhove (2005) discovered a significant positive effect of relationship commitment on consumers' ethical behavior mediated by guilt-related feelings. Because of this, we argue that guilt also plays an important role in interpersonal trust. More specifically, guilt is assumed to mediate the relationship between trust and ethical decision making in different circumstances.

#### 4. Anticipated guilt as a mediating variable

It is important to note that we limit the scope of our discussion to the ethical decision making process of a trustee. Moreover, the process will be described under two different situations: the ethical decision making process within a trustor-trustee relationship and the collusion between trustor and trustee in making unethical decisions against a third party.

Within a trustor-trustee relationship it is often the case that a trustee who intends to make an unethical decision against a trustor will suffer substantial emotional costs. As mentioned above, a feeling of

guilt will arise when a decision is made that is against one's ethical beliefs. In other words, the unethical decision itself will result in a feeling of guilt in the decision maker. On the other side, a feeling of guilt will also arise because of the failure in the trustor-trustee relationship. In a trust relationship characterized by benevolence or emotional bond, the trustor expects not to be harmed by another party. Nonetheless, when the trustee makes a decision that is unethical, that is, not good to the trustor, the trustee fails the trustor's expectation in the relationship. Thus, the intensity of the guilt feeling will be greater if the emotional bond between the two parties is strong rather than weak.

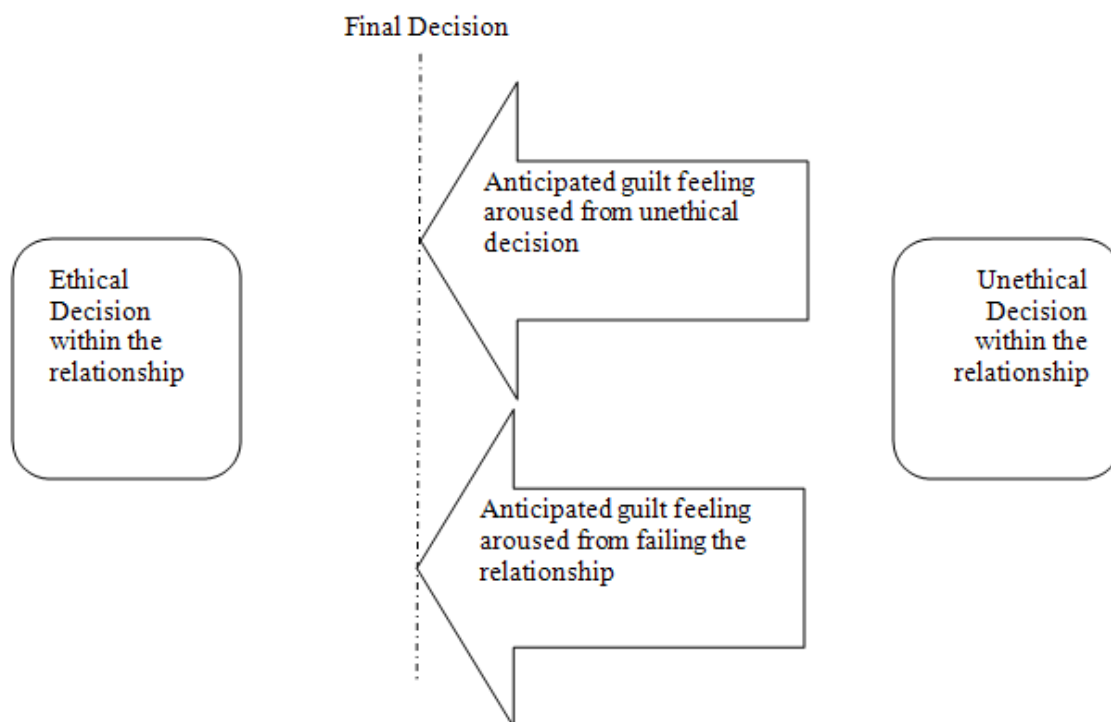
Additionally, the guilt feeling will be further intensified if the trust in the relationship also involves trust in ability or integrity. When a trustor trusts the trustee's expertise in making a decision, but the trustee acts either negligently or even deceitfully, the trustee fails in two aspects. First, he fails the relationship with the trustor and second, he fails himself as an expert in a specific domain. Thus, the guilt feeling of making such an unethical decision is compounded. Similarly, when a trustee is trusted based on his integrity but he does not act according to the principles he is expected to hold, the trustee fails the relationship and harms the image of himself as a person with integrity. Thus, the feeling of guilt is again amplified.

Although the above analysis demonstrates how the feeling of guilt will arise when a trustee makes an unethical decision, we believe that the feeling of guilt in fact can be anticipated during the process of making such a decision. It follows that this anticipated feeling of guilt will become part of the ethical decision making process and may influence the trustee's final choice of ethical or unethical alternatives.

Our previous example of a bank manager may demonstrate this point. If the manager believes that it is unethical to earn more profits by selling sub-standard bonds to customers, she will anticipate the feeling of guilt if she does so. This feeling comes directly from the unethical decision. In addition, if emotional bonds exist in the relationship between the customers and herself, she can anticipate that the unethical decision may give her a deeper feeling of guilt. This is due to that the customers will not expect her to decide unethically. The stronger the emotional bond is between the customers and herself, the stronger the anticipated feeling of guilt will be. This feeling will be further intensified when she learns that her customers depend on her expertise (i.e. ability) when they buy bonds from her, believing that she

sticks to some honorable principle (i.e. integrity). If these anticipated guilt feelings are strong enough, it may prohibit her from making an unethical decision to sell sub-standard bonds. It is reasonable to assume that all these guilt feelings work in the same

direction. More specifically, both the feeling of guilt aroused by making an unethical decision and the feeling of guilt aroused by the violation of trust will drive the trustee away from the unethical decision. Figure 1 illustrates this point.



**Fig. 1. Ethical decision making within a trust relationship**

The dotted line in the diagram represents the final decision outcome and the decision maker is struggling between the ethical and the unethical decision in a trusted relationship. Here, two forces push the decision away from the unethical decision. One comes from the anticipated guilt feeling aroused from the unethical decision alone, and the other comes from the anticipated guilt feeling aroused from failing in the relationship. The two forces add to the emotional costs when an unethical decision is made. As a result, we introduce the following propositions:

*Proposition 1a:* Within a trustor-trustee relationship, trust will reduce the likelihood that the trustee will make unethical decisions against the trustee.

*Proposition 1b:* Trust between two parties will intensify the anticipated feeling of guilt when the trustee tries to make an unethical decision against the trustor.

*Proposition 1c:* The stronger the emotional bond between the two parties is, the stronger the anticipated feeling of guilt a trustee experiences will be when he makes an unethical decision against the trustor.

Nonetheless, trust does not always lead to ethical decision making. For instance, in many cases of corruption, culprits work with one another not only based on mutual economic gains but also based on trust among themselves. They trust one another in the sense that each party will observe agreements that cannot be legally enforced. In fact, the process of ethical decision making becomes more complicated when a trustor and a trustee try to collude together to make an unethical decision against a third party. Let us assume that a trustor tries to connive a trustee to make an unethical decision. The decision itself arouses a feeling of guilt on behalf of the trustee. However, if the trustee refuses to collaborate, he places distress on the relationship with the trustor. Such distress will also arouse a feeling of guilt in the trustee, but this time the two feelings of guilt work in different directions. Figure 2 demonstrates this point graphically. The dotted line represents the final decision outcome, and this time the decision maker is struggling with whether to collude with the trustor in an unethical decision or not.

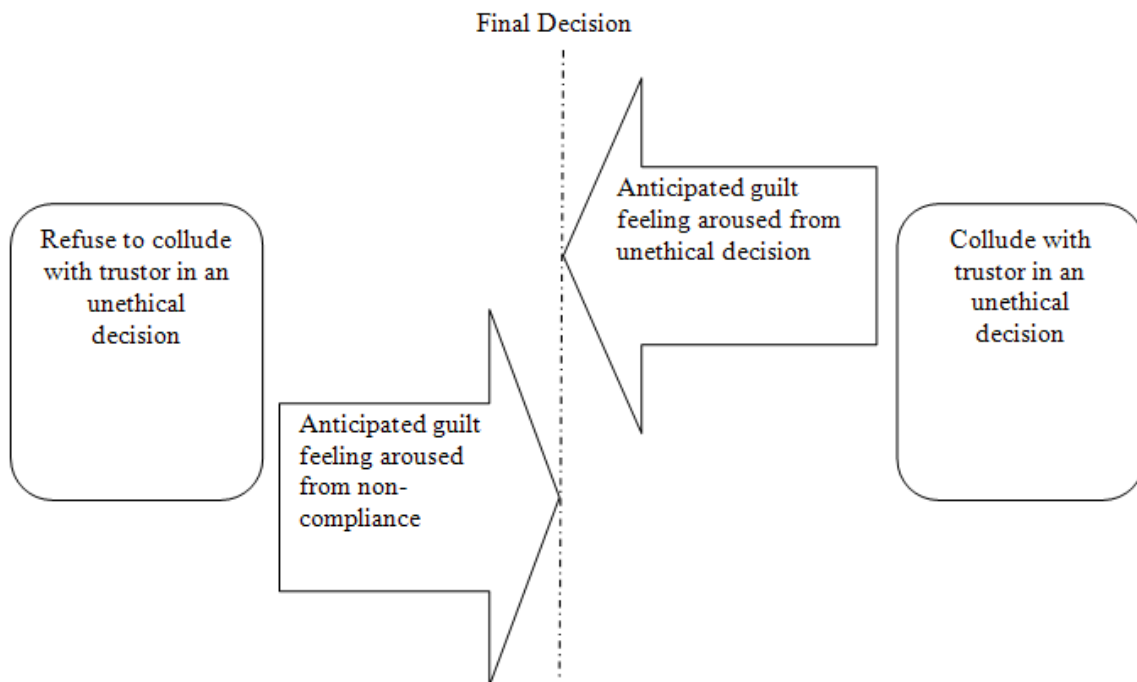


Fig. 2. Ethical decision making in collusion with a trusted party

As in the former case, the anticipated feeling of guilt aroused from the unethical decision alone will force the trustee away from the collusion decision. On the other hand, the anticipated feeling of guilt that results from the distress on the relationship will push the trustee toward the collusion decision. The final decision will thus depend on the strength of these two different guilt feelings.

Again, we argue that the stronger the emotional bond between the trustor and trustee is, the more likely it is that the anticipated guilt feeling aroused from the unethical decision alone will be offset substantially or superseded by anticipated guilt feelings. This is due to the distress in the trust relationship. The phenomenon is demonstrated also by our previous example about a manager who eventually hires an under-qualified candidate because of a friend's recommendation. In this case, the manager may anticipate a feeling of guilt by making an unethical decision such as hiring an under-qualified candidate for the company. However, if he refuses his friend's recommendation, he will also anticipate another feeling of guilt by failing his friend's expectation. In fact, we argue that the stronger the emotional bond is between the manager and his friend, the stronger this anticipated feeling of guilt will be. As far as this anticipated feeling of guilt is stronger than the feeling of guilt that derives from making the unethical decision, the manager will follow his friend's recommendation.

Nonetheless, trust based on ability and integrity may moderate the feelings of guilt in this process. This is because the trustee may use his own ability and

integrity as justifications for refusing to collaborate in the unethical decision. In our previous example, the manager might say to his friend, "According to my expertise in this field, the candidate recommended by you is clearly not suitable for this position", or "you know that I always act on my principles..." Such justifications may mitigate the feeling of guilt aroused from refusing to collaborate in a trust relationship.

Furthermore, if the trustee is trusted by others because of his ability and integrity, the feeling of guilt resulted from the non-compliance can be further reduced. To illustrate this point, suppose the manager's company always emphasizes the competence and the integrity of the manager. Knowing this, the manager may anticipate a greater feeling of guilt if he follows his friend's recommendation. This is because by doing so he will fail his company's expectations. In addition, his own reputation may also suffer as a result. Overall, we formulate the following propositions:

*Proposition 2a:* The existence of trust between two colluded parties is likely to increase the probability of unethical decisions against a third party.

*Proposition 2b:* The feeling of guilt aroused from making an unethical decision will be offset by the trust between the colluded parties. The stronger the emotional bond between the parties is, the stronger the offset will be.

*Proposition 2c:* The feeling of guilt aroused from refusing to collude in making an unethical decision will be reduced when a trustee is trusted based on ability or integrity.

## 5. Individual difference and the feeling of guilt

Although the feeling of guilt is central to the above hypotheses relating the ethical decision making process, it is still reasonable to realize that not all individuals behave the same way when facing the guilt feeling. In fact, we will discuss certain individuals who may react positively, deliberately, or indifferently to the anticipated feeling of guilt.

First, we propose that mindful individuals normally react positively to the anticipated feeling of guilt. According to Eisenbeiss, Maak & Pless (2014), mindful individuals can change how to perceive the inner and outer worlds and are characterized by having empathy toward others. For a mindful trustee within a trustor-trustee relationship, empathy enables one to empathize with the other's potential suffering. As a result, a mindful trustee is less likely to make an unethical decision to a trusted party because of the other's suffering (outer world) and the anticipated guilt feelings (inner world).

On the other hand, another quality, high tolerance for the negative, may also prevent a mindful trustee to collude with a trusted party to make an unethical decision toward others. High tolerance for negative feelings means that a mindful individual has freedom to choose whether to follow one's immediate affective feelings or behavioral impulses (Eisenbeiss et al., 2014). Although a mindful trustee anticipates the guilt feeling associated with rejecting a collusion with a trusted party due to the high tolerance for the negative feeling, he or she does not necessarily follow the direction urged by the feeling. Despite the negative feeling, a mindful trustee still has freedom to choose the right decision.

Second, we proposed that individuals who possess high psychological capital may deliberately manipulate the feeling of guilt anticipated in ethical decision making. High psychological capital means that an individual is characterized by self-efficacy, optimism, hope, and resilience (Paterson, Luthans & Milosevic, 2014). By reinforcing optimism, the bank manager in our previous example may persuade herself that she can still achieve her target sales even though she chooses not to sell sub-standard bonds to customers. The hope that her ethical decision may finally pay off may intensify the guilt feeling of betraying the customers at the moment.

On the other side, individuals with high psychology capital may also manipulate the feeling of guilt in the opposite direction so that they can achieve some unethical goals. The former CEO of Enron successfully persuaded board members to suspend the ethics code for top executives (Khurana, 2002). This may be due to the fact that he skillfully

manipulated the feeling of guilt by offering false hope and optimism for the future so that the other trusted parties colluded with him in his unethical decisions.

Third, we identify some individuals who are almost unmoved by the feeling of guilt. They are referred to as narcissists, machiavellians, and psychopaths, and belong to the predispositions sometimes referred to as the dark triad of personality (Paulhus & Williams, 2002). Narcissists are arrogant and self-absorbed (Rosenthal & Pittinsky, 2006), psychopaths are guiltless and callousness, whereas machiavellians are aloof and practical (Ali, Amorim & Chamorro-Premuzic, 2009). Contrary to mindful individuals, all these three kinds of personality lack empathy with other people. Because of this, these individuals may anticipate little or no guilt feeling in making an unethical decision on a trusted party. Furthermore, some machiavellians, may even force others into a collusion for unethical decision due to their emotional manipulative nature (Austin, Farrelly, Black & Moore, 2007).

Nonetheless, one should note that it is difficult for narcissists, machiavellians, and psychopaths to form a trusting relationship at initial encounters. The study of Paulhus and Williams' (2002) showed that all three personalities are negatively correlated with agreeableness in the Five Personality Model. Agreeableness has been shown to be an essential element in creating trust (Mooradian, Renzl & Matzler, 2006). As a result, the opportunities that these three types of individuals have in exploiting a trusting relationship are actually rare.

## 6. Implications for future research

Future research may be able to test our propositions in different ways. First, experiments with between-group designs can be implemented. A group of trusted dyads can be compared with a group of non-acquainted dyads in order to study whether participants in the former group are more reluctant to make an unethical decision with implications to each other than those in the latter group. Second, another two groups of the same structure can be used to measure the anticipated feeling of guilt by forcing the dyads to make an unethical decision with implications to each other. In a similar vein, between-group designs with a similar structure can also be used to test for collusion in making unethical decisions against a third party.

In addition, it will be fruitful to introduce ethical decisions into different business contexts. For example, will the results be more conspicuous when decisions take place in an accounting context due to the fact that accountants are required to observe the

ethics codes of their own profession? Is there a cultural difference in the anticipated feeling of guilt?

### 7. Implications for practice

The above analyses demonstrate the interaction between ethical beliefs, trust, and the feeling of guilt in the decision making process. It has some implications for practice. First, within a trustor-trustee relationship, a trustee will anticipate substantial feelings of guilt not only because of the unethical decision itself but also because of the failure in the trust relationship. Such anticipated feelings of guilt may lower the trustee's likelihood of making an unethical decision against the trustor. In connection to this, it would be beneficial to strengthen the mutual trust within an organization. In other words, trust by itself might become one of the mechanisms to thwart unethical decisions made against one another within an organization.

The second implication concerns the unethical decision making based on collusion between trusted parties. This happens because the feelings of guilt arising from non-compliance with a trusted party offset the guilt feeling resulted from the unethical decision. In other words, the first feeling of guilt forces the party toward the unethical decision and the second feeling of guilt pulls the party away from the decision. The key to deal with this situation will thus be either to strengthen the feeling of guilt derived from the unethical decision or to mitigate the feeling of guilt aroused from the non-compliance with a trusted party. One way to deal

with this situation is to underscore the integrity of individuals in the organization. For example, having a formal code of ethics is often cited as a means to strengthen ethical decision making (Trevino, 1986). It is not only because this may serve a trustee as a justification for non-compliance but also because it makes salient the importance of the individuals' integrity.

In organizations, an ideal situation is that the trustor-trustee relationships are created between the leadership and all the sub-units. In other words, the leadership should attempt to avoid the situation that it becomes the third party of the sub-units such that the latter can collude against it. This eventually will add to the emotional cost of making unethical decisions against the organization.

### Conclusions

This paper delineates the relationship between trust and ethical decision making. Depending on the situation, trust can either strengthen or weaken the process of ethical decision making. The crucial point is the feeling of guilt which a party may anticipate or experience in the process. Guilt or uneasiness is often the first sign of that an unethical decision has taken place. Subsequently, it becomes important to changing one's behavior to reduce such feelings. Such a change can ultimately reflect a person's values shifting to fit the decision the next time a similar situation occurs. Thus, a few suggestions are made on how an organization can enhance the ethical decisions making process by manipulating feelings of guilt as a starting point for behavioral change.

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