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The Influence of Ethical Relativism on Ethical Compromise in Business Exchanges

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Email: [khung@suffolk.edu](mailto:khung@suffolk.edu)**ABSTRACT**

In this research, we investigated the impact of ethical relativism on ethical compromise likelihood in managerial decision-making. We proposed that ethical relativism is positively related to ethical compromises in business exchanges. Specifically, ethical relativism lets a party in a reciprocal exchange relationship to advocate an ethically questionable or even unacceptable practice requested by the other party in the relationship. We also examined the role of environmental uncertainty as moderating factor in the ethical relativism-ethical compromise relationship. The results of an experiment with business professionals have yielded partial support for our hypotheses.

**KEYWORDS:** Ethical Relativism, Ethical Compromise, Environmental Uncertainty, and Experiment.

**INTRODUCTION**

Ethical compromise is a ubiquitous but understudied phenomenon in business exchange relationships. Ethical compromise can be defined as one party's engagement in an ethically unacceptable or questionable practice requested by another party (Tangpong, Li, & Hung, 2016). Decision making agents make ethical compromise for various reasons, one of which is because the norm of reciprocity imposes a sense of moral obligation and a sense of instrumental necessity on the decision-making agents and subordinate them to do so. Since Gouldner's (1960) famous analysis on the norm of reciprocity, researchers in different disciplines such as sociology, psychology, business, and behavioral economics have examined the impacts of the reciprocity norm on the dynamics in various forms of social relationships (e.g., Axelrod & Dion, 1988; Bowen & Jones, 1996; Dahl, Honea, & Manchanda, 2005; Perugini, Gallucci, Presaghi, & Ercolani, 2003). The norm of reciprocity rests upon two fundamental principles: (1) people should help those who have helped them, and (2) people should not harm those who have helped them.

The reciprocity norm is considered a foundation of stakeholder theory (Phillips, 2003; Tangpong & Pesek, 2007), relationship marketing (Dahl et al., 2005; Friedman & Friedman, 1996), and game strategy (Axelrod, 1984; Rappaport & Chammah, 1965). In addition, empirical research has suggested various advantageous effects of the reciprocity norm in business and

management contexts. Examples of such advantages include (a) strengthening employee loyalty, commitment, and organizational citizenship behavior (e.g., Deckop et al., 2003; Levinson, 1965; Shore & Wayne, 1993), (b) fostering trust and creating moral community among professionals (Sama & Shoaf, 2008), and (c) reducing opportunism and thus transaction costs in supply chain relationships (Bowen & Jones, 1996; Maitland, Bryson, & Van de Ven, 1985). Therefore, the logic of reciprocity has become a prevalent conceptual framework in analyzing and understanding social relations and exchanges.

While most studies on the norm of reciprocity in the literature have primarily focused on its benevolent effects, research that examines the negative side of this phenomenon has been limited, to our knowledge. Abbink, Irlenbusch, and Renner's (2002), Shang, Chen, and Chen's (2008), and Tangpong, Li, and Hung's (2016) studies are among only few studies that have tapped into the potential dark side of the reciprocity norm in terms of inducing corruption, copyright infringements, and ethical compromise, respectively.

In this study, we want to extend Tangpong et al.'s (2016) study by specifically arguing that ethical relativism is a very important variable that will affect decision makers' ethical compromise likelihood in managerial decision-making. At the same time, we argue that environmental uncertainty plays an important moderating role in the ethical relativism-ethical compromise relationship.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Main Effect of Ethical Relativism**

In a business exchange relationship, ethical compromise refers to as one party's engagement in an ethically unacceptable or questionable practice requested by another party (Tangpong et al., 2016). Decision making agents make ethical compromise mainly because the norm of reciprocity imposes a sense of moral obligation and a sense of instrumental necessity on the decision-making agents and subordinate them to do so. The norm of reciprocity is a social norm prescribing that individuals should attempt to repay what others have provided them and should not harm those who have helped them (Cialdini, 2006; Gouldner, 1960). This social norm thus plays a major role in stabilizing any social systems (Gouldner, 1960) and is central to human social relationships.

Tangpong et al. (2016) investigated the impact of the reciprocity norm on ethical compromise likelihood in managerial decision-making. They found that the norm of reciprocity compels a party in a reciprocal exchange relationship to advocate ethical compromise and environmental uncertainty and exchange partner's retaliatory power status work as boundary conditions of the reciprocity norm-ethical compromise relationship, in addition to perceived future gain opportunity in the relationships as potential mediating mechanisms of the reciprocity norm-ethical compromise relationship. In this current study we try to examines this issue from a different perspective – ethical relativism.

Ethical relativism argues that morality and ethics are relative to the norms of one's culture and situation. In other words, whether an action is ethical or not depends on the moral norms of the society in which it is practiced or the situation where the decision is made. The same action may be ethical in one society but unethical in another. For people who believes in ethical relativism, there are no universal ethical standards. Research has found that relativistic individuals reject the possibility of formulating and relying on moral principles when making

moral judgments, whereas absolutistic individuals believe in and make use of moral absolutes when making judgment (Forsyth, 1980; Rawwas et al., 1995; Schlenker & Forsyth, 1977; Suter et al., 2006).

Based on this line of argument, we propose that ethical relativism can exert influence on decision making agents' ethical compromise likelihood in business exchange relationship. Those who score high on ethical relativism are less like to accept universal ethical rules. Therefore, they are more likely to be affected by the instrumental force of reciprocity norm, thus more prone to making ethical compromise. We therefore propose the following hypothesis:

*Hypothesis 1: In reciprocal business exchange relationships, decision makers' ethical relativism is positively related to their likelihood of making ethical compromise.*

### **Moderating effect of environmental uncertainty**

Uncertainty has been a key factor that shapes dynamics in managerial decision-making and influences firm behaviors (e.g., Simon, 1957; Thompson, 2003). Arising from rapid changes in technology, markets, and competition (e.g., Kumar, Scheer, & Steenkamp, 1995; Lee, Yeung, & Cheng, 2009), environmental uncertainty, in the context of ethical compromise in business exchanges, is found to be a boundary condition of the reciprocity and ethical compromise relationship (Tangpong et al., 2016). Following this logical thrust, we argue that the main influence of ethical relativism on ethical compromise is moderated by environmental uncertainty. In a fast-changing and uncertain environment, firms are faced with series of challenges ranging from unpredictability of market conditions, changes in customer preferences, technological changes, to various competitive actions from competitors (e.g., Buchko, 1994; Kevin, 1999; Lee et al., 2009). This type of business landscape creates tremendous competitive pressures, and the failure to cope with them can threaten firms' long-term survival (D'Aveni, 1994). For decision makers who uphold ethical relativism, such environmental pressures strengthen their belief of situational ethics and permit them to make ethical compromise. By doing so, they expect to win their partners' trust and form further coalitions and alliances to better cope with such uncertainty. As such, it can be argued that the ethical relativism becomes a greater force exerting influences over decision-making agents of firms to engage in ethical compromises in a highly uncertain business environment. This line of argument suggests Hypothesis 2:

*Hypothesis 2: Under conditions of high environmental uncertainty, the positive relationship between ethical relativism and ethical compromise in managerial decision making is strengthened.*

## **EXPERIMENT**

To test the proposed hypotheses, we used a scenario-based role-playing experiment as our research methodology. For this experimental research, we used the validated ethical dilemma scenario from Tangpong et al. (2016), which is empirically grounded in a real case of anti-competitive conduct of Microsoft – part of the Sun Microsystems (Sun) versus Microsoft antitrust lawsuit in 2002. The details of the experiment are described as follows.

### **Participants**

Participants in the experiment were 132 experienced business professionals recruited through the alumni association of a university in the East Coast of the U.S. The participant demographics included (a) 66.7% male and 33.3% female, (b) 89.4% Caucasian and 10.6% non-Caucasian, (c) the average age of 47 years, (d) 58.3 working in private sector, 36.4% in public sector, and 5.3% did not mention their sector, and (e) the average management experience of 14.6 years.

### **Experimental design**

In the experiments, we manipulate environmental uncertainty. The participants were randomly assigned into one control group and one experimental group. All participants were asked to read an ethical dilemma scenario developed based on the Microsoft antitrust lawsuit case. As part of the lawsuit, Microsoft was charged with engaging in illegal monopolization and/or monopoly maintenance and with illegally entering into exclusive dealing and exclusionary agreements with Intel. An incident leading up to the charges was that while Sun and Intel were establishing a technology partnership to optimize Sun's operating environment for Intel's processors, Microsoft allegedly intervened in the process by contacting Intel and convincing Intel not to cooperate with Sun, which was a primary competitor of Microsoft at the time. The experimental scenario in this study was based on this incident, in which Company W (a pseudonym name for Intel) is considering a mutually beneficial business relationship with Company X (a pseudonym for Sun). However, the top manager of Company Y (a pseudonym name for Microsoft), an established business partner of Company W, approaches the top manager of Company W and asks him/her not to form the partnership with Company X, which is the main competitor of Company Y. The participants in this experiment assume the role of the top manager at Company W in the scenario. Facing with this dilemma, the participants have to make a yes-no decision whether to comply with the request from Company Y. Given that anti-competitive conducts are considered ethically or even legally questionable, their decision to comply with Company Y's request is thus considered an ethical compromise.

All participants were presented with the same information in the given scenario briefly summarized above. However, those in the experimental group were provided with the manipulation material for environmental uncertainty, while those in the control group were not presented with the manipulation material. Both manipulation checks were successfully performed as the participants in the experimental group indicated that when making the decision, they took the manipulation material regarding environmental uncertainty into consideration to a greater extent than those in the group without that manipulation ( $p < 0.001$ ).

### **Variables and data coding**

The decision likelihood to comply with the ethically questionable request was the dependent variable and was scaled from 1 - 7 (not very likely to very likely to engage in an ethical compromise). The environmental uncertainty manipulation was one of the two independent variables and was coded as 1 and 0 for their presence and absence in the given scenario, respectively. The other independent variable was respondents' ethical relativism, which was measured by a 10-item 7-point Likert scale. These items were developed from previous literature (Forsyth, 1980; Rawwas, Patzer, & Klassen, 1995; Schlenker & Forsyth, 1977; Suter, Kopp, & Hardesty, 2006). Second-order factor scores of these 10 items were used as the composite measure of ethical relativism in the subsequent data analysis. Control variables included ethnicity, gender, age, private sector, and years of management experience. Ethnicity, simply categorized into Caucasian and non-Caucasian, was coded as 1 and 0, respectively.

Male and female were coded as 1 and 0, respectively. Respondents self-reported as being from the private sector was coded as 1, or otherwise coded as 0. Age and years of management experience were kept as continuous variables.

### **Data analysis and results**

The correlation analysis indicated that there was significant correlation between Age and Management Experience (coefficient = 0.766,  $p < 0.001$ ). However, Variance Inflation Factors did not indicate multicollinearity problems among them. Thus, the underlying assumptions of regression analysis were not violated. The results of the regression analysis show that ethical relativism was positively related to the ethical compromise likelihood ( $p < 0.05$ ), thus Hypothesis 1 was supported. The environmental uncertainty, however, was slightly related to the ethical compromise likelihood ( $p < 0.1$ ). The interaction term between the ethical relativism and environmental uncertainty was significant and negatively related to the likelihood of ethical compromise ( $p < 0.05$ ), which was against Hypothesis 2.

### **DISCUSSION AND CONCLUSION**

In this research, we have examined how ethical relativism affects decision-making agents' ethical compromises in business exchanges. We specifically inquired: (1) what is the effect of ethical relativism on ethical compromise likelihood in managerial decision making, and (2) what is the moderating effect of environmental uncertainty on the ethical relativism-ethical compromise relationship. The empirical data from the experiment not only reveal some answers to these questions but also provide directions for further research.

First, there is a significantly positive relationship between ethical relativism and agents' ethical compromise likelihood in reciprocal business exchange in our experiment. Second, ethical relativism interacts with environmental uncertainty in negatively influencing the likelihood of ethical compromise in reciprocal business exchanges, which is against our original hypothesis. This finding is quite counter-intuitive to us. A possible explanation is that ethical relativism may serve as a moral adaptive mechanism that enables individuals to morph their ethical standard to morally justify their action under a specific perceived circumstance (i.e., the target toward which individuals' ethical standard is modified). However, when individuals are less certain about the circumstance as in the case of high uncertainty, such circumstance metaphorically becomes a moving target, which individuals are cognitively less able to adapt their ethical standard toward. As such, they become less decisive in taking actions (i.e., less likely to engage in ethical compromise).

This research has extended the current literature on ethical compromise in two important ways. First, it enriches the currently limited research on ethical compromise by examining the influence of decision makers' ethical relativism on ethical compromise. Second, this research looks at environmental uncertainty as a potential boundary condition that moderates the impact of ethical relativism on ethical compromises in exchange relationships.

### **REFERENCES**

References available upon request.